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An empirical study of the financing of small enterprise development in Sudam

Ahmed, El-Sayed Abbas

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AN EMPIRICAL STUDY OF THE FINANCING OF SMALL ENTERPRISE DEVELOPMENT IN SUDAN

Submitted by:

EL-SAYED ABBAS AHMED
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"The gift of material goods makes people dependent. The gift of knowledge makes them free."

'Small is Beautiful'
Dr. Fritz Schumacher.

This Thesis is dedicated to

The memory of my father, to my mother for instilling in me desire and love for learning;

and to my wife Ikhlas for giving me support and inspiration all these years.

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I wish to acknowledge the contribution of my supervisors Professor C. R. Tomkins, Dr. G. H. Ray and Dr. R. A. A. Karim. Over the years, they have never failed to provide wise counsel, ingenious suggestions and encouragement.

I must acknowledge the patience, support and encouragement of my wife Ikhlas during the long and difficult stages of small enterprise development. Dena and Aladdin, the touch of love in the family, sacrifice their enjoyable time to provide the required quiet atmosphere.

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ABSTRACT

The stimulus for this study was the contention of many development economists, that small businesses form an important facet of the economy. However, there is relatively little information on this matter for developing countries in general, and apaucity of data on Africa in particular. This study addresses this knowledge gap.

The objectives of the research are:-

. To study the financing experience and financial profile of indigenous small manufacturing firms at inception and growing stage of development, as well as large private enterprises in The Sudan.

. To consider the financial institutions' behaviour towards small business financing in developing countries, and,

. To provide knowledge on the interaction between financing, financial control profile and entrepreneurial typology.

The research findings have been based on empirical data, obtained from personal interviews with 45 small firms, 15 large private firms, 11 financial institutions and other relevant bodies. This research is in two volumes. Volume I stands as the main body of the thesis and Volume II is on the research case studies.

Volume I:

. The first two chapters cover the objectives, the research problems and provide practical and academic justification of the research.

. Chapter three is on the analysis of the research case studies, and consequently the development of the analytical

research framework and the research hypotheses.

. Chapter four outlines the research methodology.

. Chapter five discusses the main sources of finance available to small and large firms. The financial profile based on ratio analysis has been addressed in chapter six.

. Chapter seven has been devoted to the examination of the small business financing gap and chapter eight addresses the financial institutions' behaviour towards small business financing. These two chapters provide conclusive empirical evidence of the existence of the finance gap from the perspective of both demand and supply-side on multi-dimensional approach. The findings from these two chapters provide empirical evidence of the existence of "Bolton Gap" in The Sudan.

. Chapter nine gives insight into the understanding of the Sudanese entrepreneurs in the manufacturing industry.

. Chapter ten covers the financial planning and control practice in the small firm at various stages of development. This study provides empirical evidence that the financial control profile of the small firms is rudimentary and is partially responsible for the identified finance gap.

. Specific summary conclusions and their theoretical implications have been made in chapter eleven. It is apparent that all Government policies and development plans ignored this vital sector of the economy. To this end, chapter twelve is devoted to practical policy implications arising from the general conclusions of the study.

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CHAPTER 1

INTRODUCTION

1.1 OBJECTIVE OF THE STUDY:

Small enterprise development as an issue has become increasingly important in recent years in developed and developing economies. The study of development of small enterprises has invited the attention of many people in the academic and professional circus, as in recent years big enterprises got into trouble and proved to be too inflexible and rigid when confronting environment and economic turbulence and change. 'Small is beautiful' - 'schumacherion' - is a more prevailing slogan in the recent years. This view has challenged the traditional economic theory on the promotion of economic development, in both developing and developed economies.

The stimulus for this study was the contention and the argument of many development economists that small businesses form an important facet of the economy. However, many recent studies in developed and developing countries (Boswell, 1970; Birth, 1970; Bolton, 1971; Besong, 1978; Osaze, 1981) have shown that the leading sector in any economy is the small indigenous business sector. Given that cogent reasons can be offered in support of developing small enterprises as a vehicle for economic development in under-developed countries, there are, nevertheless, major problems facing this sector.

The question of small business financing has been singled out by researchers in developed and developing economies as a most critical factor in small enterprise development. The general objective of this research is to study the financing characteristics and financial behaviour of small firms at various stages of development (inception and growing) in developing economies - Sudan - and to make such comparisons as are possible between small firms classified into inception and growing and their larger brethern. Thus, in this study large enterprises were taken as a control group. Curren and Stanworth (1985) state that: "In the explosion of research on the small firm over the last decade or so, the tendency has been to concentrate almost exclusively on the small firm itself with little or no systematic comparison with its counterpart, the large firm. ....Now, however, with the emergence of a mature body of theory and findings on the small enterprise, the problem of situating the small firm in its wider environment has re-emerged."

It has been argued that the financial behaviour of a small firm in any economy is a reflection of stage of development and the life cycle of the firm. If these contentions and observations could be empirically confirmed by data from less developed countries like Sudan, then it could be concluded that this profile characterises small business regardless of the economy and stage of development of the capital market.

Furthermore, the study is designed to address the controversial issue of financing, in an attempt to provide an answer to the question : is small business at a disadvantage in obtaining adequate financing, or in other words, does a "small business financing gap" exist in the Sudan? It has been argued that the small business financing gap is attributable to the normal capital market operations (Grafer, 1968) and financial control systems maintained by small business (Bolton, 1971). This study aims at examining the nature of finance gap, if any, and the reasons of its existence.

It is within the capacity of this research effort that the researcher is to form an opinion on financial control characteristics of the small firms and the degree of interaction between financing and financial control profile of small businesses. In this study an attempt is made to provide understanding of the Sudanese entrepreneurs (elsuive heffalump).

In order to provide well documented findings and to make generalisations more meaningful, the issue of the small business financing has been tackled in this study from demand and supply-side perspective. The financial institutions behaviour towards small business measured into policy, financing, level of documentation, financing instruments and monitoring techniques and small business advisory services has been examined in this study (see Figure 4.1). Thus, this study will examine to what extent small business is accommodated in the capital market.

In an attempt to establish a model for small enterprise development in the Sudan, a policy proposal derived from the research findings and based on integrative approach will be projected, taking into consideration the relevancy and practicality of the proposal.

The research is set out initially to address small businesses at inception, growing and declining stage of development. The investigation of the declining stage is confined to the development of research case studies at the initial stage of the research process, because of data collection problems and non-availability of data on declining firms in a poor-data developing country like Sudan.

1.2 PRACTICAL JUSTIFICATION OF THE SELECTION OF SMALL BUSINESS AS A RESEARCH TOPIC

The prosperity and the higher per capita income in developed countries has been attributed by economists to their highly industrialised nature. Correspondingly the economic backwardness of less developed countries is considered to be because of lack of industrialisation in those countries. The notion that economic development is linked to industrialisation, led less developed countries to put more emphasis on industrial development and the Sudan is no exception.

Due to the size of the market and the nature of the services provided in the Sudan as a text example of less developed countries, small enterprises in the field of manufacturing, trade and services stand as a backbone of the Sudan economy, in the sense that the success and failure of small enterprises has a great impact on employment, GDP and the economy as such. Thus, the position of small enterprises and their dominant role in the Sudan economy is the main argument behind the selection of this area of study.

Concerning large and public corporations in the Sudan, a number of studies and research efforts have been conducted on sectoral and cross sectoral basis. On the other hand, there is no comprehensive study in the field of small firms in general and small manufacturing firms in particular, and this is why Government policies stated and preceded without adequate knowledge of the functions performed by this sector. This could be attributed to controversial issues of economic development. The literature of economic development (G. Myrdal, 1969; Nurkse, Lewis, 1955; Bangs, 1968), shows that there is yet no agreement between leading development economists on which economic sector plays a leading role in the process of a country's development (Besong, 1978). Many development economists tend to hold the view that the small indigenous business has outlived its usefulness while others believe that small businesses form an important facet of the economy. The economic development policy of the Sudan has been built round large enterprises under public sector domination.

This is not to say that the small business sector in the Sudan encountered a complete ignorance; an association has been established in 1980 as a trade union for craftsmen, and in the capital market circus, Faisal Islamic Bank has launched experience of setting specialised branch for providing finance to craftsmen and artisans. The World Bank and the European Development Fund made an attempt to promote small scale industries in the Sudan in the late '70's, at investigation level. The Management Development Centre, under the direction and sponsorship of the International Labour Organisation 'I.L.O', made an unsuccessful endeavour and attempt to establish a small business section for providing managerial services to the sector (1976).

All these attempts to develop and enhance the role of the small business sector, have been hampered by the absence of clear Government policies and financial institutions policies towards this sector. In the Sudan there is no clear definition and even the Ministry of Industry has no formal definition of small business and small manufacturing firm in particular. The Government policies reflected in the Investment Act 1980, and the Bank of Sudan rules and regulations, favour big producers.

From this review, we could conclude that there is a big gap between economic development theory and practice in connection with small enterprise development in the Sudan. Curran and Stenworth (1984) explained that research should bridge the somewhat meaningless division between those who do and those who theorise. The vital question to be raised in this context is what symptoms or phemomena need to be researched.

In the Sudan, as a text-book example of less developed countries with a low per capita income, ($200, 1976, IBRD), and consequently a very low margin of savings, small enterprises have been developed by personal savings and family wealth. In addition, out of small family-owned manufacturing firms, as well as small trading enterprises, have grown a considerable number of medium-sized and rapidly growing firms. In explaining, controlling and predicting these phenomena, a series of vital and pertinent questions need to be raised. In this research effort, small firm phenomena will be discussed within the context of financing and financial control as a main facet of small enterprise development, identified by scholars (Bolton, 1971; Boswell, 1970; Ray and Hutchinson, 1983).

The main question to be answered on the practical and theoretical level is - why financing and financial control? In the Sudan, this is a fertile field of research, not only in small firms, but also in public and private large enterprises. The issue of financing and financial control of public and private enterprises, has been raised in the First Economic Summit (1982) and the National Economic Summit (1986 - March) by academics and professionals as a main reason behind the poor performance and decline of most public and private enterprises in the Sudan.

From this review, it appears that the theme of this study has an empirical justification, in the sense that there is a need to provide insight and give a better understanding of some of the financing problems that the small businessman faces in the Sudan. Kilby (1986) stated that academics could develop action research programmes, as well as undertaking further applied and empirical research, to generate information on the problems, needs and role, as well as development, of small business. This empirical investigation is directed to close the small business conceptualization gap in the Sudan. The pertinent question to be raised and posed in this context is : what is a small firm? To this point we turn attention now.

1.3 WHAT IS A SMALL FIRM?

1.3.1 Small Firm Definition :

One of the theoretical problems with regard to research into small firms is the definition of small firm, both among different countries and among different industries. The lack of encompassing definition of small firms is due to the fact that many criteria are employed in the definition. Hertz (1979) argued that "the small business is one of those phenomena which, though existing everywhere and frequently in the public eye, mean different things to different people in different places". Ray and Hutchinson (1983) added that "a small enterprise is easier to recognise than to define". Osoze (1981) contended that :-

> "The only thread of commonality in international definition of small business is a noticeable absence of agreement in the literature as to what consititutes a small business."

The Bolton Committee (1971) lend and extend further support to the argument that there is no single definition of small business, by stating that : "it becomes clear that a small firm could not be adequately defined in terms of employment or assets turnover, output or any other arbitrary single quantity, nor would the same definition be appropriate throughout the economy".

In defining small businesses, researchers and writers have employed many criteria. These criteria could be classified into quantitative and qualitative ones. The qualitative criteria are those which describe the characteristics, the functions, and/or the attributes which the defined possesses or lacks, regardless of its quantitative determinants (Hertz, 1979). On the other hand, those which it is possible to quantify in a simple and practical manner are referred to as quantitative criteria.

Qualitative criteria were considered by scholars (Hertz, 1979; White, 1977; Nappi and Vora, 1980) more profound, because of the notion that the inability to quantify them indicates more intrinsic and wholesome characteristics. Hertz (1979) added that : "This belief contributes to the stability of the qualitative criteria which tend to stay with the defined for longer period of time than the quantitative criteria. As a result, they are also considered more reliable and more accurate in their description of the defined".

The first qualitative definition of smalls firm adopted in the U.S. was the definition embodied in the Act 1953 which reads as follows :

> "A small business concern shall be deemed to be one which is independently owned and operated and which is not dominant in its field of operation".

The essential qualitative elements of this definition are three: (1) independent ownership, (2) independent management and (3) a small share of the market. The Bolton Committee definition of small firms (1971) was based on the 1953 Act elements standing as a first qualitative definition of small firms in the U.K.

> "Firstly, in economic terms, a small firm is one that has a relatively small share of the market. Secondly, an essential characteristic of a small firm is that it is managed by its owners or part owners in a personalised way, and not through the medium of a formalised management structure. Thirdly, it is also independent in the sense that it does not form part of a larger enterprise so that the owner-managers should be free from outside control in taking their principal decisions."

The Bolton definition of small firms introduces new elements to the criteria adopted in the U.S. definition by containing the following elements in the prescribed order :

1. small market share
2. private ownership
3. owner/part-owner management
4. personalised management
5. not a subsidiary.

Galbraith (1975) defined small firms from a managerial point of view by stating that : "It is useful to describe the small firms in qualitative terms as one in which the operational and administrative management lie in the hands of one or two people who are responsible for the firm's major decisions".

The German (West) definition of small firms (1978) adds and introduces new elements and criteria in defining small businesses. "By .... small and medium enterprises are meant enterprises which do not as a rule borrow on the capital market and which are run independently by persons working on their own account, who are themselves directly involved in the work of the firm and bear all the risks."

Regarding quantitative criteria, a research work conducted by Georgia Institute of Technology (U.S.), (1975) about small business definition in 75 countries discovered that none had an exclusive qualitative definition, but that all had a quantitative one; out of these 75 countries only six used a qualitative definition in addition to the quantitative one. It had been suggested that the choice of the quantitative criteria is based on the belief that the quantitative criteria are more appropriate in defining a small business. The advantages of quantitative criteria in defining small businesses have been clearly expressed in their numerical specification. On the contrary, the quantitative criteria suffer from arbitrariness and environmental limitations (Ray and Hutchinson, 1983).

Within the context of quantitative and qualitative criteria adopted by researcher and practitioners in defining small business in developed and developing economies, the criteria could be summarised and classifed as follows:

Table 1.1

Criteria of small firm definition :

Criteria	Quanti-tative	Quali-tative
1. total asset size	X	
2. number of employees	X	
3. sales volume	X	
4. profit level	X	
5. relevant position of the company within the industry		X
6. market share		X
7. private ownership		X
8. owner/part-owner manager		X
9. personalised management		X
10. restrictive access to the capital market		X
11. total risk borne by self-employed, working manager		X

Review of the literature on small business definition indicates that small firm definition is connected by programme and scheme or policy, therefore the criteria for small firm definition vary according to the context. The existence of small firm definition implies the conceptualisation of small business, regardless of the macro objective behind the policy. The vital point is : what is the position of small business in developing economies at this level of determination and definition of the sector?

Definition of small industries in some of the Developing Countries :

The definition of small industries in the developing countries varies from country to country. Normally they are based on one or more factors including investments, employment and turnover. In defining the small firm in Nigeria, Osaze (1981) states that : "A small business is one which is owned, managed and controlled by one or two persons, is family influenced in control and decision-making, has an undifferentiated organisation structure, has a relatively small share of the market and employs less than 100 people". Based on Bolton and Galbraith's approach, Osaze adds another dimension - family - to the definition of small firm in developing countries. Chata and Liedholm (1982) quote the definition of small-scale industry provided in the Sierra Leone "Small Scale Industries Act, 1981", "small scale enterprise is an industry or enterprise whose fixed assets and annual output is not in excess of U.S.$118,000 and U.S.$236,000 respectively and employment is not less than 15 persons and not more than 50 persons". These quantitative criteria have been used in Kenya, Ghana and Zambia in defining small business.

In Tanzania, the formal definition of small business was based on the context and the geographical location. For the purpose of financing, the small industry is defined as : "any industrial unit having a total investment in land, building, machinery, equipment and other fixed assets not exceeding T.Shs.5 millions; if the unit is located in urban area but outside any 'SIDO' industrial estate, and T.Shs.3 millions if it is located inside 'SIDO' estate where a shed is provided or in a rural area, beyond any Regional Headquarters (UNIDO, 1985).

The working party on small-scale industries of the Economic Commission for Asia and the Far East (1952) defined small business on quantitative and qualitative basis, as "one which is operated mainly with hired labour, usually not exceeding 50 workers in any establishment or unit not using any motive power in any operation, or 20 workers in an establishment or unit using such power not exceeding 50 horse power". In Indonesia, small firm definition reflects the effect of the context and the defining agency on the selection of criteria and definition parameters. The Central Bureau of Statistics classifies small scale enterprises from the point of view of rural enterprise - the Tanzanian approach - as a unit employing 5-9 workers. The Bank of Indonesia as a financial body defines a small enterprise in financial terms. The Ministry of Industry as a policy-maker defines a small enterprise in terms of investment and ownership. That sort of variation in defining this sector reflects the lack of integrated policy and programmes between the interested and concerned agencies to promote and help small-scale industries in Indonesia. That which is said about Indonesia could be applicable to many developing countries in the Asian and the African continents.

These variations in statistical, quantitative and qualitative criteria used in defning the small firm, make it extremely difficult to make valid comparisons of the importance and significance of small firms in various countries. Although the 'SBA' is considered the agency for U.S. small business interests, its definition is not uniformally accepted by state and federal agencies. This is because the criteria used and adopted in defining the small firm are based on the stage of development of the economy, and the particular environment in which the definition is being used. The pertinent question to be raised is to what extent is the small business sector determined and conceptualised in the Sudan.

In the Sudan there is no single formal definition for small industries. Within the Development and Encouragement of Industrial Investment Act 1974, the Government refers to small industrial projects as 'craft' which it defines as : "Any industry carried out by any person or persons whose work basically depends upon various primary and intermediary materials and in which some simple equipment, tools and machinery are used or manual production of some final or intermediary commodities liable for direct circulation or consumption or any industrial work decided by the Minister". The Institute of Industrial Research and Consultancy defines small-scale industries on the basis of total capital employed and employment.

> "Small scale industry is one which has a total capital investment of L.S.40,000 - L.S.200,00 and employing 10-50 workers."

The Sudan Association of Handicrafts (SAH) has its own definition for small enterprises. "All persons who have a certified licence from the authorities and who employ one or more persons and who work on a craft which is being done in an industrial area." This definition has been used by Faisal Islamic Bank in establishing its specialised branch.

The Management Development Centre defines small-scale industry as one employing less than 50 workers. In the Industrial Survey (1981/82), small firm has been defined as an enterprise employing less than 25 persons. In studying small industries sector in the Sudan, the United Nations Industrial Development Organisation (UNIDO) has defined small industry as :

> "... a local undertaking employing less than 50 workers and having a total investment in land, buildings, machinery, equipment and other fixed assets not exceeding L.S.350,000."

Despite the declared intention of the Sudanese Industrial Bank (S.I.B.) to promote and develop small industry, the bank has not clarified precisely what it means by small-scale industry. A policy paper on small-scale industries in the Sudan (1978) has been prepared by a bank official which does not represent the official bank view. Within the subject paper, a definition of small-scale industry was stated : "small industries organised on relatively modern lines producing consumer goods and offering advantages such as import substitution may have an initial investment ranging from L.S.50,000 and L.S.100,000 and employing a labour force from 20 to 100 persons; it would mean an investment per worker of L.S.1,000." The Sudan Development Corporation as a financial body defines small scale industries and small projects as having investment up to U.S.$25,000 within a specific project.

However, these definitions or classifications do not have much significance as none of the above carries any special programme or gives any special preference for the development of small industries. These could be regarded as definitions for statistical purposes.

The Research Working Definition:

Bates (1971) argued that : "It probably does not matter much in practice which measure is chosen provided that it is reasonably accurately calculated, has some relevance to the problem under discussion and is used consistently during an investigation." Based on the arguments of scholars in the field of small business (the Bolton Committee, 1971; Galbraith, 1975; U.S. Small Business Act, 1953; Hertz, 1979; Osoze, 1981), the working definition of small manufacturing firms in a developing economy - Sudan - will be based on the following dimensions :

1. The first dimension is employment. The employment has been adopted by various writers and practitioners in drawing a demarcation line between small and large enterprise in developed economies. Hertz (1979) went further by considering the employment criteria as the most reliable and profound qualitative criteria, providing an answer to the criticisms which based on the degree of arbitrariness embodied in the number of employees as a criterion for small firm definition.

2. The second criterion selected for defining small business in this study is ownership. Researchers assert that ownership is the most reliable and accurate qualitative criterion. However, the use of ownership alone as a measure cannot really be adopted as a criterion for defining small business.

3. Based on Galbraith's approach, owner or part-owner management and control has been selected as a qualitative criterion for defining small business in this study.

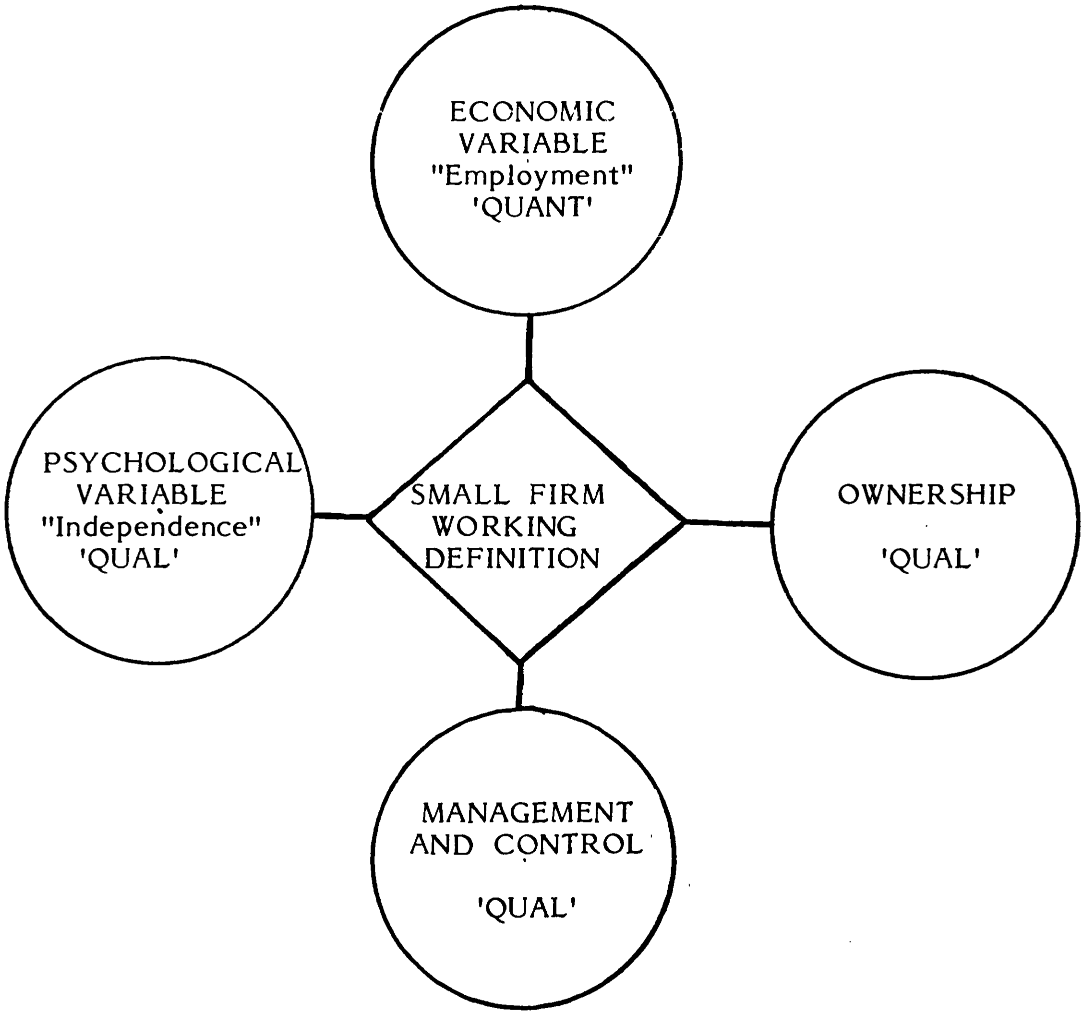
4. The fourth and last dimension is based on the psychological aspect, taking independence in ownership, management and control and decision making as a criterion for defining small business.

These quantitative and qualitative criteria have been selected so as to satisfy the research problem under investigation, the nature of the research, which is empirical and the methodology adopted. Therefore, the working definition adopted is a combination of qualitative and quantitative criteria. For the purpose of the research work a small firm is defined as :

> "One which is independently owned, managed and controlled by owner/part-owner making all decisions over the complete range of activities and employing less than 50 persons."

Figure No. 1-1

Variables of the Small Firm Working Definition :



1.3.2 Definition of stages of small Enterprise Development:

To define the stages of small enterprise development, accurate, reliable and relevant criteria will be selected, provided that they meet the research problem, and the environment in which the definition is being used. To state a working definition for a small firm at inception, the time scale and lifetime of the enterprise has been used as a criteria. For the purpose of this research work, small firm at inception is defined as one which established and commenced its business operation in (1980-1985). The time-scaling has been used as a criterion, on the grounds that it matches the research problem and the methodology directed to test empirically the traditional theory.

In general, an increase in size is regarded as growth, although Noell and Hydebrand (1971) contended that : "Growth is not merely an increase in size, but of other factors as well." They suggested that growth has both qualitative and quantitative dimensions. Starbuck (1965), however, refers to changes in the qualitative dimensions as development and to changes in the quantitative dimensions as growth. Consistent with the distinction made by Starbuck, changes in the quantitative dimensions have been considered as growth by Ford (1980). In his review of size literature Kimberly (1976) indicates that growth may be viewed as an increase in physical capacity, number of people, inputs or outputs, or discretionary resources.

Based on quantitative dimension, Tamari and his group (1971) defined a fast growing firm as one in which sales grow by 15% a year in manufacturing or by 10% a year in non-manufacturing. On the other hand a slow growing firm was defined by the Bolton Committee (1971) as one in which the sales remained stationary or remained constant, or declined. Ray, Piper and Hutchinson (1975) added another dimension by taking an increase in the asset size as a criterion for defining small, growing firms. In defining a small growing firm in a developing economy - Nigeria - Osaze (1981) contended that : "an enterprise which had experienced rapid growth over a relatively short period of time ..... in this case, at least doubled its turnover or asset size."

Based on quantitative criteria, a small growing firm is defined in this study as one which experienced change in assets, sales and asset turnover. To match the empirical research nature, a percentage change is used to augment the quantitative criteria. Taking into consideration the nature of the research setting - manufacturing industry - and other economic indicators - inflation and pricing - a 100% increase in sales and asset size is used as a precise quantitative criterion for defining small, growing firms in the developing economy - Sudan.

With respect to declining and failure, Dun and Bradstreet, Inc. defines failure as : "Those businesses that cease operations following assignment or bankruptcy; ceased with loss to creditors after such actions as execution, foreclosure, or attachment, voluntarily withdraw leaving unpaid obligations; were involved in court actions such as receivership, re-organisation, or arrangement voluntarily compromised with creditors." Beaver (1966) defined failure as a firm declaring bankruptcy, overdrawing its bank account or defaulting on interest payments on its debts. Deakin (1972) defined failure as those firms which experienced bankruptcy, insolvency, or otherwise liquidated for the benefit of the creditors. Libby (1972) and Edmister (1970) on addressing the problem and prediction of failure in large and small enterprises respectively were concerned with those firms who failed to meet their loan obligations. Gupta (1983) criticised the definition of failure adopted by Beaver and other scholars, arguing that :

> "..... however, in reality, bankruptcy is only the culmination. Failure, in the true economic sense, might in fact have occured several years prior to bankruptcy proceedings."

In a developing economy - India - the failure of an enterprise usually culiminates not in a bankruptcy petition, but in government take-over of the failed enterprise (Gupta, 1983).

From this review it is obvious that most researchers and writers on the failure problem assert that the cessation of operations, failure to meet financial obligations, insolvency, defaulting on loan interest and re-organisation and bankruptcy can be considered as main elements in defining failure in developed and developing economies. For the purpose of this research work, a declining and failed firm is defined as one which is deadly bankrupt, insolvent or under re-organisation regardless of the nature of re-organisation - voluntarily or by order.

Given that the stages of small enterprise development are defined, the next logical scholary step is to decide what type of stage model is to be used in satisfying the research question. To this point we turn now.

1.4 STAGES OF SMALL ENTERPRISES DEVELOPMENT

The point of departure on the survey of the literature on small business stage mode of growth is one of Alfred Marshall's best known analogies between the stocks of the firms in an economy and trees in a forest. " At a point in time, Marshall argued, there were large trees and small trees with the two apparently living side-by-side in harmony. However, some of the small trees are growing rapidly, others are stagnating and others declining. Some small trees would eventually grow so rapidly as to replace the larger trees, with the forest constantly evolving and changing, partly in response to outside circumstances." (D. Story, 1983 - Entrepreneurship and the New Firm)

In their paper 'A Typology of Small Businesses Hypothesis and Preliminary Study' N. Churchill and V. Lewis (1985) show the importance of classification and categorisation of small business into stage of development and growth for sharpening and understanding of the nature, characteristics and problems of small businesses.

> "Often when you read about small businesses or listen to discussions of small business problems, you may experience a certain amount of battlement. While one person may be discussing the problems of a 300-employee manufacturing company, another will be focusing on his neighborhood restaurant."

Churchill and Lewis (1985) contended that unnoticed considerable differences between small businesses produces some pernicious effects:

- A governmental policy passed with one type of small business in mind may or may not be of benefit to the others.
- Counsel given by the manager of one business to the manager of another could be ill-advised.
- Tax and accounting regulations designed to benefit one type of business may be irrelevant or even harmful to others.

This is a research effort with an objective to explore the area of financing and financial control of small manufacturing firms at various stages of development, attempting to develop a model for small enterprise development in the Sudan. A crucial and a focal point needing to be raised is what stages are to be covered and on what dimension will the stage be conceptualised. To delineate stages of small enterprise development, various models developed by researchers and theorists in the field of stage growth model at theory construction and empirical examination level, have been examined critically in the following discussion.

Greiner (1972) described organisation as evolving through five stages of development, with each stage characterised by an organisational structure and a management style. The things that changed from stage to stage in Greiner's formulation were the organisational structure, the degree of managerial delegation, and the extent and types of formal controls. Steinmetz (1969) theorised that to survive, small business must move through four stages of growth :

1. Direct supervision
2. Supervised supervision
3. Indirect control
4. Divisional organisation

Similar to Steinmetz, Roland and Bruce developed a growth model based on organisational complexities and management style. They formulated three stages that a company moves through, as it grows in overall size, number of products and market coverage.

1. One unit management with no specialised organisation parts - 'pioneer'.
2. One unit management with functional parts - 'functional'.
3. Multiple operating units, such as divisions.

The main criticism which could be raised against the Greiner, Steinmetz and Roland and Bruce models is that all these models are one-dimensional, in the sense that they are based on organisational complexity and management style.

In developing the traditional view of the financial life-cycle of the firm, Weston and Brigham (1978) suggested six stages for enterprise development: inception, growth (1), growth (2), growth (3), maturity and decline (see Table 1.2). The Weston and Brigham model was based on the financing as well as management of small firms, in the sense that, with each stage characterised by financial and managerial profile. It was a multi-dimensional approach as compared to the Griener and Steinmetz models.

The Weston and Brigham model was used by Ray and Hutchinson (1983) in addressing the issue of financing and financial control of super-growth firms in Britain. In investigating the financial profile of rapid and non-rapid growth small firms in Nigeria, Osaze (1981) modified the Weston and Brigham model into classifications of growth stages into early, rapid and development growth.

The main weakness of the Weston and Brigham model is based on the assumption that the company must grow and pass through all stages of development ending in decline and collapse, giving no consideration to the fact that a firm may die in the attempt to grow. Empirical research into small firms (Knight, 1984; Edmister, 1970) provides evidence that the death rate of small firms is very high at infancy stage of development.

McGuire formulated a model that saw companies moving through

Table 1.2

The traditional view of the financial life cycle of the firm

Stage	Source of Finance	Potential Problem	Managerial Charct.
Inception	Owners' resources	Under-capitalisation	Personal management
Growth (1)	As above plus : - Retained profits - Trade credit - Bank loans/overdrafts - Hire purchase - Leasing	"Overtrading" liquidity crisis	
Growth (2)	As above plus : - Long term finance from financial institutions	Finance gap	Competent management
Growth (3)	As above plus : - New issue market	Loss of control	"
Maturity	All sources available	Maint. (ROI)	
Decline	Withdrawal of finance : - Firm taken over - Share repurchase - Liquidation	Falling (ROI)	Insufficient management foresight

X Weston and Brigham (1978)
X Ray and Hutchinson (1983)

five stages of economic development : (1) traditional small company, (2) planning for growth, (3) take-off or departure from existing conditions, (4) drive to professional management and (5) mass production. The McGuire model was a clear explanation to the statement of Marshall on the position of firms in the economy.

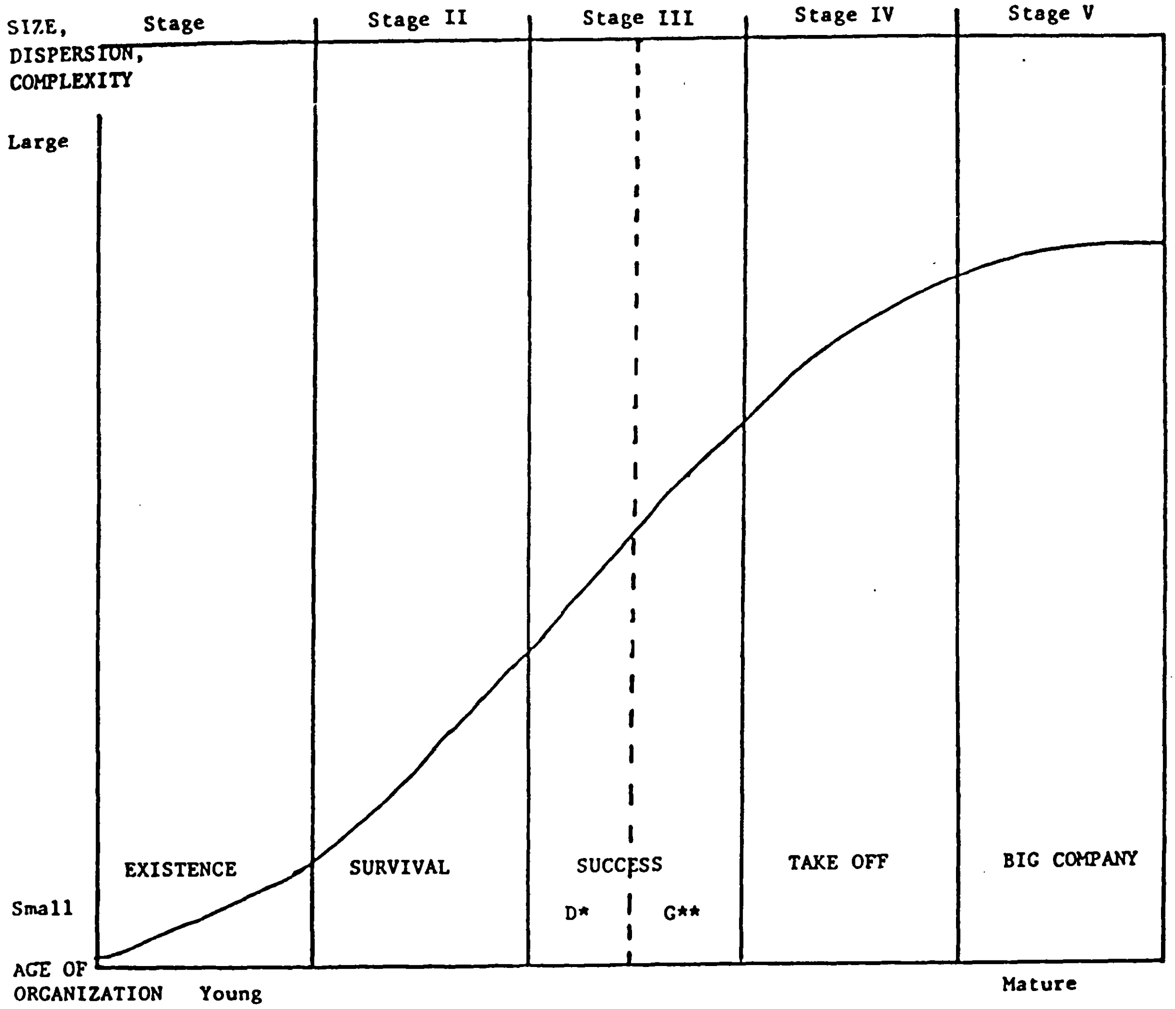
In examining small enterprise development, Churchill and Lewis (1983) have developed a model labelling five stages for small enterprise development (see Figure 1.2) : (1) existence, (2) survival, (3) success, (4) take-off and (5) resource maturity - 'big company'. In developing this model the authors criticised previous attempts at devising models of the small business growth on three counts. Firstly, they assume a business must grow and pass through all the postulated stages. Secondly, the models fail to capture the early stages of the process and, thirdly, most concentrate on size, measured by annual sales or number of employees, but ignore other factors such as value added or complexity of product line.

Weston and Brigham (1978) and Churchill and Lewis (1983), in formulating their models, agreed on most stages and the dimensions; the main difference between the subject models is that Weston and Brigham considered decline and collapse as a separate stage, while Churchill and Lewis based their model on the probability that a business may fail completely and drop from sight at any stage of enterprise development.

In his review article 'Int. Small B.' (J. Winter, 1984), Curran criticised the Churchill and Lewis model on the ground that :

Figure No.1.2

Churchill and Lewis Model



> "It is fairly typical of its kind albeit developing some aspects of the theory in more detail than is usual but it does not really escape from the central weaknesses of this approach. The main criticism against this model is that it was based on a non-testable hypothesis which is no help for developing a proper theory."

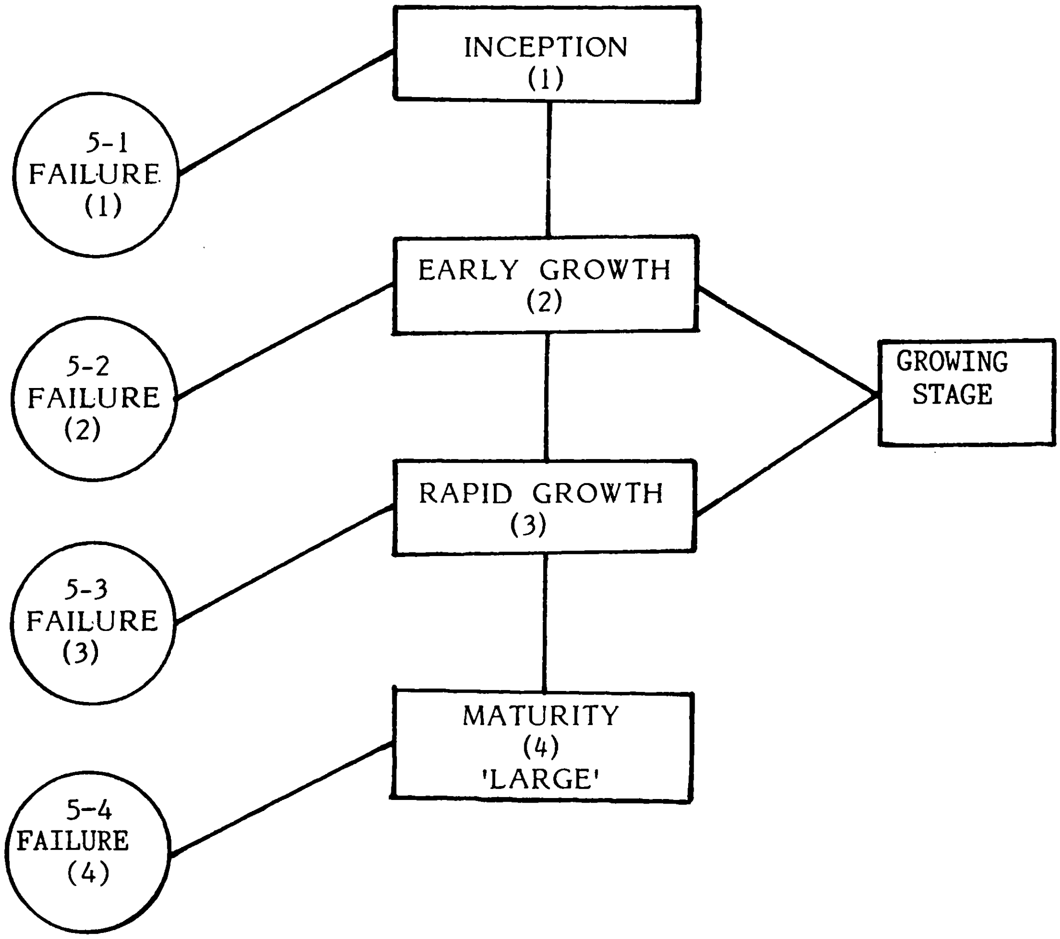
The stages theories have been criticised by Stanworth and Curran (1976) as, in principle, inappropriate for the study of small firm growth, on the grounds that the owner-managed enterprise simply does not function in the linear, casually linked pattern basically required by the stage theories. Stanworth and Curran (1976) added that :

> "The small firm here is seen as passing through a sequence of growth stages though there is little discussion on whether this is a necessary progression or whether, under certain conditions, one or more stages may be missed out or variation in the sequence occur."

Based on the models developed by Weston and Brigham (1978) and Churchill and Lewis (1983), the study will explore financing and financial control profile of small firms at three stages of small enterprise development - inception, growing and declining, taking into consideration the probability of failure and success at all stages of development. The selection of Weston and Brigham model and Churchill and Lewis model was based on the fact that both models were multi-dimensional and suit the theme of the research work, focusing on the identification and establishment of the financial and managerial profile of small firms at start-up, growing and declining stages of development - (see part 1.3 for definition and operationalisation of stages of small enterprise development).

Figure No.1.3

Research Stage Model :



The research stage model was used by the researcher in developing research case studies as a methodology for empirical examination of the analytical framework and generation and development of testable research hypotheses (see Vol.II). In the process of empirical test of the research hypotheses, the model was used as a framework to collect data and to categorise and classify small firm research sample accordingly.

The limitation of this research model, which indirectly reflects the limitation of the research work is that the framework has been tested on retrospective data or observation at a single point in time instead of taking a longitudinal approach (Stanworth and Curran, 1976). The second limitation of this study embodies the fact that the research addresses the stages of development rather than the transition process.

The analysis of the survey results (chapters 5-10), stood as an empirical test of the research stage model, along the way, to establish the financing characteristics, financial and managerial profile of small businesses at various stages of development (inception and growing).

1.5 and 1.6 GENERAL BACKGROUND INFORMATION

1.5 SMALL BUSINESS IN DEVELOPED AND DEVELOPING COUNTRIES

1.5.1 Small Business in Developed Countries :

The review of literature shows that developed countries attach a higher degree of importance to small businesses as a basis for their economic development. In the United States (U.S.A.), the general climate towards small businesses is favourable. The importance of small firms in U.S. economy could be see through the observation of Reilly in Duns Review (1980) :

> "During the Afghan and Iranian crisis President Carter cancelled all speaking engagements except that to 2,000 entrepreneurs attending a White House conference on small businesses. This is an indication of the esteem in which the small firm and its owner is now held by the White House."

The identification of small business as a separate entity in the U.S. began with the establishment of the 'SBA' in 1953. Leyden (1983) added that : "By almost any count, it is clear that U.S. business consists predominantly of small firms". Birth (1979) showed, from a study of 82 percent of all manufacturing and private sector service establishments in the U.S., that two thirds of net new jobs were created in firms employing less than 20 people. Storey (1983) added that : "The independence and aspiration of the entrepreneur has always been part of the national culture in the United States."

Regarding small business policy and the financial facilities available to small business, a growing public awareness of the special problems faced by small business in the United States is demonstrated not only by congressional hearings and a widely-published White House conference devoted to small business, but also - and more tangibly - by the activities of the 'SBA' providing finance and advice to small business (Leyden, 1983). These sort of facilities under U.S. Government support and encouragement indicates the degree of importance attached to small business in U.S. economy.

The issue of small business in the U.K. has a history going back to the Macmillan Report in 1931. Regarding the economic significance of small business, Bannock (1976) shows that in the manufacturing sector small enterprises represent 94 percent of the total firms in 1968

Cross (1983) classifed the Government measures to assist small firms in the U.K. into financial, policy, taxation, information, education, employment and export awards. As a response to the explicit Government policy towards small businesses in the U.K., Bolton Report, 1971; Wilson Report (1979); the universities, financial institutions and research organisations have taken special interest in the activities, survival and growth of small firms.

Broadly, the EEC looks at all measures concerned with political action, legislation on business competition and concentration. Article 26(1) of the Rome Convention between the European Community and The African-Caribbean Pacific states (ACP) gives power for the EEC to support the small and medium-sized businesses of the 'ACP' countries.

In Japan, as a text-book example of a developed and industrialised country in the far east, the small firm is exceedingly important in almost all sectors of Japanese industry and commerce. Anthony (1983) added that : "Small business is part of the social as well as economic fabric of Japan ......". The Japanese government has instituted a range of measures to provide positive assistance to small business.

It is apparent that the main point emphasised by all developed countries , is that small businesses should be encouraged to play an important role in the process of industrialisation. This role is especially applicable to the developing countries. An interesting question needing to be raised in this context is to what extent has small business in developing countries received support and encouragement as compared to developed countries.

1.5.2 Small Business in Developing Countries :

In developing countries, small businesses exist on un-structured financial systems, large-oriented environment and they tend to survive in spite of shortages and still provide a service (Fitzpatrick, 1976). With respect to the development of small firms in developing countries, Neck (1983) explained that the immediate and medium-term prospects for promoting small enterprise in Africa are not encouraging. Few, if any, countries in the region possess a clear, workable strategy for orderly development of the small business sector. Until definite policy issues are developed, the sector will continue to shudder along, as it has in the past, operating mainly in an ad hoc opportunistic manner (Storey, 1983). Those supporting the small business sector as an economic development vehicle, believe that its growth in developing economies has been hampered by the unreasonable reluctance of government officials to deal with this sector in a low demand by government for its services. It has been further argued by development economists that governments have positively discriminated in favour of firms in the formal sector by offering access to credit, foreign exchange concessions, etc.

As far as the African region is concerned, writers (Neck, 1981; Storey, 1983) classified the region into four categories, in relation to small enterprise development policy, as follows :

1. South Africa

> "small firms in the segments of the Republic of South Africa can be said to match those found in several industrialised countries in terms of efficiency and quality." (Kilby, 1986)

2. > "small firms in Egypt, Ethopia and Nigeria could well be placed at a middle under level of ranking on any world scale." (Storey, 1983)

3. "The first steps in the orderly development of the small enterprise sector have been taken in Cameroon, Zambia, Tanzania ...."

4. "Political instability or government by military rule has hampered the sector's progress in such countries as Uganda, Chad, ... and Sudan."

The foregoing discussion (1.5.1 and 1.5.2) shows that developed and industrialised countries give more consideration to the promotion and development of small business sector than developing countries and particularly the African region. This contradicts the fact that a developing country with scarce resources and a high rate of population growth, needs small business as a partial solution for poverty and as a vehicle for economic development. The focal point needing to be raised is what the socio-economic importance of the small firm sector, how smaller firms fit into the manufacturing picture of the Sudan and the position of the small business sector in the government development policy. To this point, we direct attention now.

1.6 MANUFACTURING INDUSTRIES AND THE SMALL BUSINESS SECTOR IN THE SUDAN

1.6.1 Sudan Economy :

The Sudan provides a textbook example of a developing country. It is estimated that 80 percent of the country's population is engaged in agriculture and/or livestock activities. According to U.N. terminology the Sudan is one of the twenty-five least developed countries in the world. The Sudan shares a number of economic characteristics with these countries, i.e. low per capita income, GDP, share of manufacturing sector in GDP and illiteracy of 75 percent or more (UNISCO, 1978).

According to the Ministry of Finance - Sudan - report on economic performance (1984), the national economy of Sudan showed a progressive trend during the years 1978/79 to 1981/82 registering a growth rate of 4% per annum in GDP. But from 1982/83 onwards, its performance has not been so satisfactory and the positive rate of growth was reversed in 1982/83, registering a negative rate of (-) 2.7%. The negative rate of growth has been attributed to the dismal performance of the agricultural sector, which has always played the prime role, with an effect on the performance of the other sectors, (Economic Performance Review, 1984/85).

The economic performance of the Sudan has been heavily influenced by the public sector investment since 1970, the date of nationalisation and confiscation of most foreign and local enterprises working in the market. The public investment is mainly in large schemes based on capital intensive formulae. Sin (1986) attributed the negative rate of growth of the Sudanese economy to the failure of most public development schemes, which are large and capital intensive ones. This observation provides confirmation of the contention and allegation of Schumacher (1972) that :

> "The failure of aid to accelerate growth in many less developed countries (LDCs) is partly attributable to its being tied to inappropriate technology. Too frequently large plants have been established on the basis of foreign aid in the (LDCs) to produce output in an inefficient manner."

1.6.2 Industry in the Sudan :

Industrialisation, by virtue of its impact on economic growth, has been advocated as an important vehicle for achieving integrated economic development, (Nimeri and Shaelddin, 1975). The importance of industrial development in the Sudan as a developing country stems from the need to broaden and diversify the national economy , and so reduce the heavy reliance on the production and exportation of agricultural products, whose yields and prices fluctuate substantially from year to year. Industrialisation is also needed to ease the chronic balance of payments problems (Nimeri o.p.ct, 1975).

Modern manufacturing industry in the Sudan is of recent origin, dating back to 1955/56, the year of political independence. After independence the government declared its policy, which was to promote industry and at the same time to expand agriculture, all within the framework of a balanced and integrated economic and social development plan.

The industrial sector is small when compared with the dominant agricultural sector, accounting for less than 8% of gross domestic product and employing about 6-7% of the working population.

Table No.1.3

Contribution of Economic Sectors in the GDP :

Actual/(%)

Economic Sectors:	78/79	79/80	80/81	81/82	82/83
1. Agriculture	37.6%	35%	35.6%	36.0%	34.4%
2. Commerce	19.5%	21%	22.0%	21.5%	22.0%
3. Manufacturing & Mining	7.0%	7.6%	7.6%	7.5%	7.9%
4. Transport	11.7%	9.6%	9.8%	10.3%	9.5%
5. Construction	4.0%	4.3%	4.3%	4.5%	4.9%
6. Electricity	1.5%	2%	2.0%	2.0%	2.0%
7. Governm't services	9.8%	11.4%	10.3%	9.7%	10.0%
8. Other services	8.9%	9.1%	8.4%	8.5%	9.3%
9. GDP	100%	100%	100%	100%	100%

Source : Calculated from different publications : Central Administration for Economic Research, Ministry of Finance and Economic Planning - Sudan.

From the start it was the Government's intention to encourage the private sector to undertake new industrial ventures. In 1961 the Government diverted from this policy because it felt that the private sector would not have either the interest or resources to develop certain industries that were considered vital to the economy (Eco. Report, 1977/78). The Industrial Development Corporation, 'IDC', was established in 1965 to manage the Government investment's in the industry. This is not to say the private sector does not play a role in the development of industrialisation pattern in the Sudan.

According to the industrial survey conducted by the Ministry of Industry in 1982/84, the total number of registered industrial establishments in the Sudan was 7,003 firms.

Table No. 1.4

Classification of Industry in the Sudan :

Range of Employment	Population Distribution Nos.	%	Employment Distribution Nos.	%	C.D. Distribution Nos.	%
Less than 25	6656	95	39,721	27.4	527,827	34.3
25 - 50	131	1.9	4,679	3.2	66,060	4.3
50 or less	6787	96.9	44,400	30.6	593,887	38.6
51 - 100	79	1.1	5432	3.8	82,748	5.4
101 & above	137	2.0	95057	65.6	862,189	56.0
51 & above	216	3.1	100,489	69.4	944,937	61.4
Total 1+2+4+5	7003	100	144,889	100	1,538,824	100

Source : Survey of Industries, Ministry of Industries, 1984.

It is evident from the table that the small manufacturing firms are dominant representing 97% of the total industrial establishment according to the research working definition. From the Table (1.3) it becomes evident that the contribution of the manufacturing sector towards employment has not been substantial nor has the gross output enough share in the GDP. Although the large enterprises are fewer in number, they contribute more to employment and GDP than the small, as revealed by Table 1.3. This picture could be attributed partially to the weakness of the industrial survey which covered only registered enterprises. Thus, the activities carried out by the informal sector, i.e. handicrafts, village and rural industries, which are not required to register themselves with the provincial and regional authorities, are excluded.

The efficiency, productivity and structural weaknesses of the whole manufacturing sector became evident from the table (1.4) worked out from the survey data.

Table No. 1.5

Average Investment and Output Ratios
in accordance with size of industrial units :

Range of Employment	No. of Units		Gross Investment L.S. (000's)		Av. per Unit	Investment Output Ratio
		%		%		
Less 25	6656	95	356937	15.8	53.62	1 : 5
25 - 50	131	1.9	69221	3.1	528.40	1 : 0.95
50 & less	6787	96.9	426158	18.9	582	
51 - 100	79	1.1	58002	2.6	734	1 : 1.40
101 & over	137	2	1778304	78.	12,980	1 : 0.48
51 & over	216	3.1				

Source : Ministry of Industry, Survey of Industries (1981-82)

The table shows that big industries appear to be heavily capital-oriented, and are also grossly unproductive. The output ratio is very low in large industries, as compared with small establishments. This table in connection with other observations, provides evidence that small enterprise is the most suitable vehicle of economic development of a poor country like Sudan.

1.6.3 Small Enterprise and Government Development Policy :

The Government industrial policy started with the approval of the Enterprise Concession Act in 1956 with the objective of encouraging local and foreign capital investment in industry. In 1967 the Promotion Investment Act with more concession for private big investment was passed. In 1972, another act was passed : 'The Development and Promotion of Industrial Investment Act, 1972', giving even more favourable conditions for private investment.

The change in economic development policy at legislation level came into existence by passing the 'Encouragement and Investment Act, 1980', which repealed and superseded the previous sectoral development. In other words, a single act is made applicable to all sectors of the economy. The objects of this Act are, in general, to encourage investment projects aiming towards the achievement of the objects of the development plan. The Act established a unified bureau, known as the Secretary General of Investment. The 1980 Act was criticised by various commentators and participants of 'March, 1986, Economic National Conference - Khartoum'. On the evaluation of the Act (Economic Conference, 1985), Osman articulated that : "Not only does the Act not distinguish in-between the different sectors of the economy, it also fails to indicate priorities within the sub-sectors. Any judgement, within the previews of the Act would tend to be subjective and distort the very function of resources mobilisation and selective investment in a developing economy."

The review of the Government socio-economic development and planning policies, starting with the Ten-years plan (1961-1970), New Development plan (1970-1975), Interim Action plan (1972-1978), Six-years Development plan (1977/78-1982/83) and the Three-year Public Investment and Development programme (1983/84-1985/86), shows that there is no specific declaration of policy for small enterprise development. There are many expressed wishes and intentions reflected in Governmental documents. The main point, which provides consideration implicitly and indirectly to small business is in the 1980 Investment Act.

/

Act 1980/81 (6 - D)

> " .... to encourage investment in projects which the production of which depends on local raw materials or the establishment of which is encouraged for production of such materials."

With the powers vested under the provisions of the 1980 Act, the ministerial committee has prepared a list of industries, which are all small in size and operations, and has delegated the power of the licencing to the provincial and regional authorities concerned. However, the regional authorities have not been given the power to grant concessions except the allocation of land at concessional prices. According to the Act, the small industries are eligible for one concession, i.e. the exemption from customs duty for plant and machinery. The logic and assumption behind this is that the small industries are supposed to work only with local raw materials. Apart from the 29 industries selected, any project with capital investment of L.S.250,000 and under is also referred to the regional authorities for granting licence. This is an indication and reflection of small business discrimination in the Government development policy and legislation as well as encouragement programme.

From this review of small business in the Sudan, in terms of statistical significance in the economy (97%) and the policy level, compared with the experience of other countries in developed and developing economies (1-5), a conclusion can be drawn that there is a small business policy gap in the Sudan. This macro-observation is an urgent need for more attention to be paid to the promotion of the small business sector in the Sudan. It is the intent of this research to bridge the gap in small business knowledge in the Sudan through an empirical investigation of the problems encountered by this dominant sector in the Sudan economy.

1.7 Organisation of the Thesis:

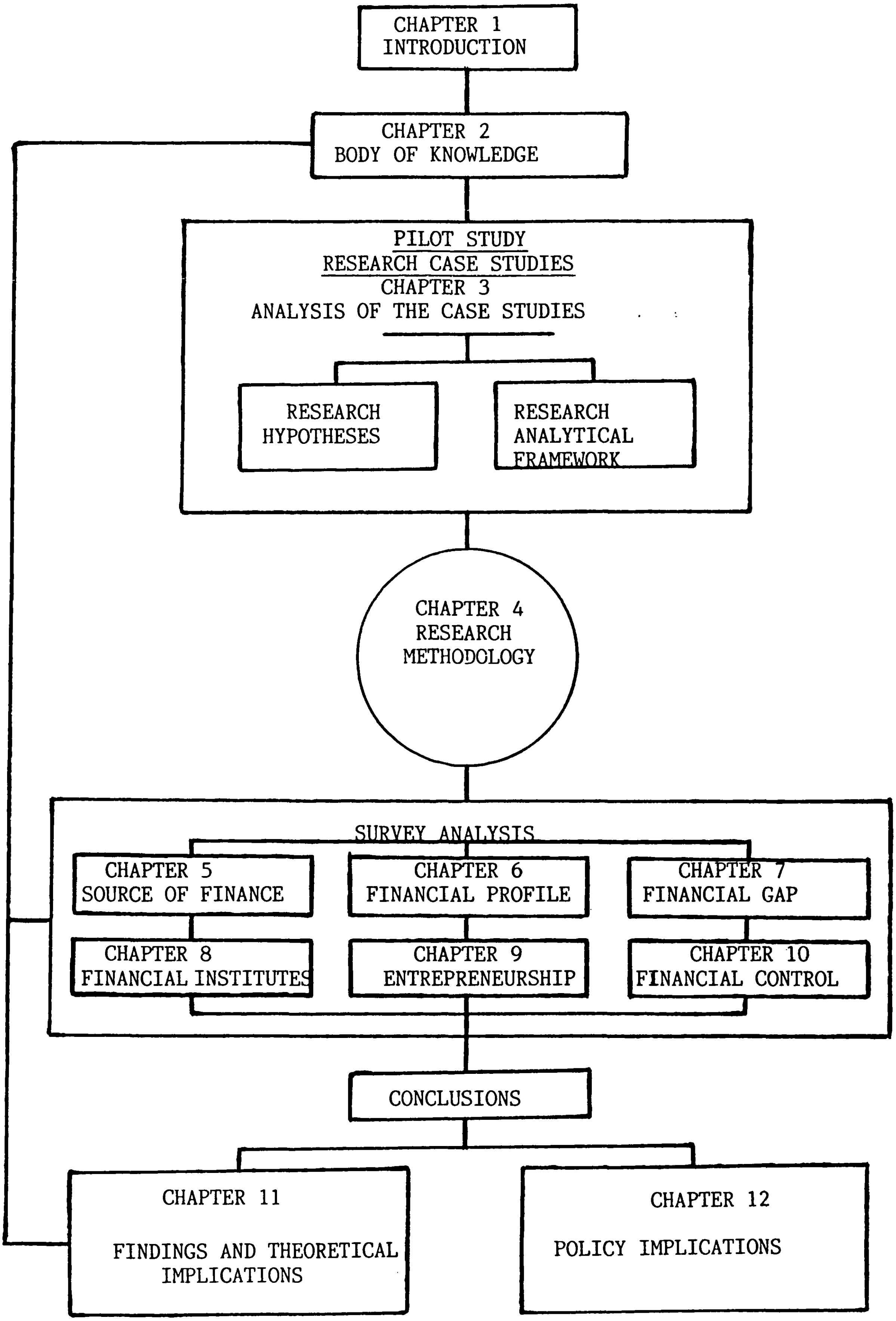
Based on the theme of the study, the thesis is structured in a manner so as to explain the phenomena and the research questions. The operational classification of the study can be detailed as follows:

1. Statement of the research problem.
2. Critical review of related body of knowledge.
3. Pilot study and analysis.
4. Research methodology.
5. Analysis of the survey results.
6. Theatical and policy implications of the research findings.

The scholarly process of investigation has been presented in Figure 1.4 in relation to classification of the chapters, theme of the chapter and the hypothesis in question.

FIGURE 1.4

ORGANISATION OF THE THESIS



CHAPTER TWO

REVIEW OF EXISTING LITERATURE OF SMALL BUSINESS FINANCING AND FINANCIAL CONTROL

A critical review of the body of knowledge on small business, shows that a considerable amount of research work based on empirical investigation and desk and library research has been done on small business in developed countries (U.S., U.K., Japan, France), but quite limited research work has been done on small business in developing countries and the African continent in particular.

The objective of this chapter is to review the existing literature, by summarising the different points of view on the issue of small business financing and financial control characteristics, evaluating critically these views by indicating the strengths and weaknesses of the literature and to establish the state of the art of the body of knowledge. Thus, the main theme of this chapter is to place the current study in perspective, and to justify the importance of the current study.

2.1 Small Business and the Theory of Finance :

2.1.1 Despite the volume of research which has been done on small business financing in developed countries, the controversial issue which still has not been completely aswered, and probably never will be in developing countries, given the dearth of data and information, is the question of small business financing. Most of the writings on small business financing attempt to provide an answer to the question of how small businesses raise funds. Petty and Walker (1978) argued that most of the writing on small business financing is pragmatic in nature, listing and evaluating the various perspective sources of financing. They added that :

> "However, little empirical work is presented. Analysis relies generally on personal experience in financing the small company."

In general, small business finance research in developed and developing countries centres on specific issues and problems encountered by small, growing firms. (For example, Bolton, 1971; Ray and Hutchinson, 1975; Osaze, 1981.) This could be attributed to availability and accessibility of data, which is unlikely to be satisfied by the small firm at inception and declining stage. A major weakness of the literature on small business financing as well as other issues, is that a comparison is often made between small and large businesses without looking into fundamental differences among firms within the sector, leading to misleading results and conclusions. The other weakness which highlighted in the measurement issue, is that most of the writing and research on small business financing has been based on one point of view rather than looking from the view-point of demand and supply side - multi-dimensional approach. In contrast, this empirical investigation tries to provide a broader perspective of small business financing and financial control, in the sense that study is based on comparison between small businesses classified into inception and growing, taking large enterprises as a control group as well as financial institutions as a multi-dimensional approach. (See Research

Methodology, Chapter -Ch.4)

According to the traditional view of the financial life-cycle of the firm, developed by Weston and Brigham (1978), small firms start by relying upon the owners' resources and the start-up stage is often accompanied by under-capitalisation. The subject theory states that the early and initial period of growth is characterised by over-trading profile. According to 'Evans hypothesis', the life cycle of the firm has an influence on the pattern of financing.

This theory has been tested in developed economies (U.K.) by the Bath Studies, carried out between 1972 and 1979 on supergrowth firms. In view of the low response rate of previous studies on small business (for example Bolton Report, 1971), the Bath Studies were carried out at two stages of investigation; in the first stage case-study research into six specific companies was employed to build up hypotheses. The final sample taken consisted of sixty-six firms. In commenting and reviewing the Bath Studies, Davis (1984) articulated that :

> "Their approach incorporates a dynamic analysis, looking at such firms over a considerable period, and, while relying on conventional analysis of accounting data, supports this with material obtained from in-firm interviews."

Based on Wilson Report (1979) approach, that the problems of small enterprises are not just a matter of the availability of finance, Ray and Hutchinson (1983) found that there was no general lack of funds or financial advice. The uniqueness of this research work was based on the interaction between financing and management, in the sense that the authors have examined in depth the question of how super-growth firms managed their overtrading (Peacock, 1985). The Bath Study is an interesting and empirically based exercise in testing the traditional finance theory. The only reservation against this work is that it has been based on a relatively small sample which might affect the generalisations of the emerged findings and premises.

In addressing the issue of financing and financial control profile and rapid and non-rapid growth firms in developing economies - Nigeria - 'The Bolton Approach' Osaze (1981) made an empirical test for the traditional view at growth level. Osaze' work is interesting in poor data developing countries. With regard to applicability of the traditional theory Osaze concluded that :

> " .... the results from this study suggest that the traditional view of the financial profile of the smaller firm and the financing life cycle of the small growing firm is only partially true in terms of its generalisability particularly in developing economies."

The focal point in this regard is what is the validity and applicability of the traditional view of the financial profile at the inception stage of development, compared to the profile of growth in developing economies. Lack of information on inception profile is a major weakness of the literature on small business financing. It is the intent of this study to test empirically the applicability of the traditional theory to small firm at inception stage of development in a developing economy - Sudan, as well as growing firms. Ray and Hutchinson (1983) state that :

> "This traditional view of the financial life cycle of the firm .... , conveys a picture which, whilst plausible, has not been subject to extensive empirical testing."

2.1.2 Small Business Financing Gap :

One view point expressed in the literature suggests that small companies utilise more debt in the capital structure (Elliott, 1972), because owners of small businesses have a greater propensity to assume more risk and/or debt financing is more necessary because of a possible inaccessibility to the equity market. Other scholars, including Bates (1964), Wilson (1979), argue that given the greater riskiness of small businesses, lenders are hesitant to extend debt unless a strong equity position is provided by the firm. On investigation of small business financial policy in Cameroon, Besong (1978) added that : "Among the many limitations of business is the problem of access to external sources of finance. Theoretical and empirical studies of the Cameroonian financial scene shows that many business firms (particularly small businesses) are hampered by lack of finance at the outset." Bates (1964) stated that "small concerns, however, have certain special problems of their own, and many of these are expressible in terms of finance".

Review of the literature on small business financing in developed and developing economies, identifies different opinions, views and diametrically opposite premises and inferences as to a small business financing gap. This variation and difference in views could be attributed to the measurement of small business financing gap dimensions, methodological approach and the framework of analysis.

In response to Macmillian Gap (1931) a great deal has been done in the U.K. towards filling the gap, and increasing public attention has been directed towards the financial problem of small business (Bates, 1972). In 1958 the Federal Reserve study in the U.S. concluded that there was a Macmillian gap. Evidence from Gravin (1970) work on small business financing has been cited to support the conclusion that a financing gap exists for small businesses in general, at least for other than short-term funds in U.S. economy.

The most important conclusion of the Bolton Committee (1971) in the U.K., was that the 'Macmillian Gap' had been filled up by the ICFC and other institutions. The other conclusion was that there was no deficiency in the availability of institutional finance and that financial facilities were adequate. The Committee felt that there was an evidence of information gap as regards 'sources of finance' and the method of presenting a case to such sources. The criticism that can be made against the Bolton Report is that the identification of the gap was based on one point of view, rather than looking to the issue from the demand and supply-side perspective. Groves and Harrison research work (1974), based on secondary data and interpretation of financial information of the random sample, - desk research - provide positive support to Bolton's finding.

> "The Institution and Bolton claim that there is no gap in the supply of finance and their case looks very strong."

Greenhow (1982) challenged the Bolton finding and commented that "the qualitative and quantitative controls which had been imposed on bank lending since the war meant that, when it came to allocating scarce resources, the larger established and therefore proven and more creditworthy enterprises were given first consideration for the available funds and newer, smaller and, almost by definition more risky enterprises were naturally at the bottom of the pile".

One view point expressed and held by some scholars is that a small business financing gap does not really exist. In his article 'The Macmillian Gap Thirty Years After' Bates (1961) concluded that "It is clear that the Macmillian Gap is partly economic, in the sense that many firms are not creditworthy by normal standards, and partly institutional in that the range of existing institutions is inadequate and the special institutions do not operate on a large enough scale .... In a good many cases the firms are not creditworthy by any standard; loans to them would merely be throwing good money after bad." Lord Piercey (1962) criticised Bates and commented that "........ Dr. Bates .... seems to be doing some violence to the 'Macmillian Gap' .... it can not be maintained that the Macmillian Committee was thinking as Dr. Bates would have us believe of.......".

This debate on the financing gap and the different opinions and views expressed as well in the little writing on small business financing in developing economies, and the African continent in particular. Bosa (1977); Besong (1978) and Osaze (1981) had identified the existence of a long-term financing gap in Uganda, Cameroon and Nigeria respectively, challenged strongly the finding of Schatz (1965) and Harris (1966). The weaknesses of the analysis and findings of these studies that are one-dimensional in terms of scope and measurement of the finance gap. What remains to be added is to provide a well documented answer to this controversial issue, presenting further evidence that will support or invalidate some of these views and opinions.

With respect to the small business financing gap, there was a contention in the literature that financial institutions were not making available to small businesses sufficient funds to finance an appropriate level of investment. The Wilson Committee (1979) agreed that as compared to large firms, small firms are at a considerable disadvantage in the financial market, and recommended establishment of a specialised body for financing small business. Grafer's view (1968) is consistent with Wilson's finding. This view has also received the empirical support of Bird and Juttner (1974) in examining the adequacy of the financial market in providing finance to small business in Australia, as well as Knight (1983) empirical research in Canada. In developing economies, Nigeria, Omoparida (1978) examined the financial market operations and its affects on industry financing. Omoparida provides support to criticism levied against banks with regard to small business financing. The weaknesses of Omoparida's research effort is embodied in the fact that it was based on questionnaires which proved to be unsuitable methodology in studying small business and particularly in developing countries with low literacy rate and people who are not research-oriented.

In view of these controversies and debate, a vital and pertinent question needs to be raised : Is there a small business financing gap and, if so, in what form? This research effort is to examine the question whether small businesses are relatively discriminated against in the capital market. In this study, the examination of the financing gap is based on multi-dimensional approach in terms of measurements and perspective (see Research Methodology chapter - Ch.4).

2.1.3. Financial Profile :

A great amount of empirical research effort has been conducted in developed countries, mainly the U.S. and the U.K., on identification and establishment of the financial profile of small firm. Some of the work is interesting and methodologically sound.

Review of the financial profile literature shows that there are conflicting points and views on small business financial profile. With regard to profitability some scholars (Anderson, 1967; Bates, 1964; Gupta, 1969) found that small firms tend to be less profitable than large firms. On the other hand, Bolton (1971), Wilson (1979), Tamari (1980) and Walker and Petty (1978) found that small firms are more profitable than large firms. Davis and Yeomens (1974) found that profitability of small firms was more adversely affected by credit squeeze than were the profits of large firms. In making a comparison between slow and fast growing firms in the U.K., Bolton (1971) found that rapid growth firms were more profitable than slow growth firms. This finding is inconsistent with Elliott's (1972), Gupta's and Singh's and Whittington's (1968) inferences. Osaze (1981) in developing economies - Nigeria - found a relationship between growth and profitability.

The liquidity position of small firms is a hot debatable issue in the literature of finance. The low liquidity of small business, as compared to large business, is a theme of thought led by Bates (1971), Walker and Petty (1978) and Wilson (1979). The other school of thought is supported by scholars, Chen and Balke (1979) and Elliott (1972). The third group (Bolton, 1971; Meredith, 1982) found that there was no significant differences between large and small, as regards liquidity profile. Bates and Hally (1982), Boswell (1970), Tamari and his group (1971) and Osaze (1981) tended to agree that rapid growth causes liquidity problems for small firms. They based this statement on the argument that illiquidity has stemmed from greater investment in fixed assets and sales as well as from greater reliance on short-term fund.

On financial gearing, the literature shows different opinions and views on the position of small business financial risk. According to Bolton (1971), Elliott (1972), Tamari (1980), small firms are not very different from large firms. Bates (1971) found that large firms were more debt-oriented than small firms. Walker and Petty's (1978) finding based on U.S. data is inconsistent with Bates' finding. In making a comparison betwen slow and fast-growing small firms, Bolton (1971), Ray and Hutchinson (1981) and Osaze (1981) found that the small rapid growth firm is more highly geared than the slow one.

These differences between the findings of scholars provide the academic justification of this research effort in attempting to establish the financial profile of small firm at inception and small growing firms and to build a dichotomy between small and large firms in a developing economy - Sudan. Moreover, this research effort is addressing the weaknesses of the literature, by making an attempt to draw the financial profile of the small firm at inception stage of development. On the academic and practical level, the current study is the first study to consider the issue of the financial profile of small firms at inception, small growing firms and large private enterprises from the Sudanese perspective contributing to the small business body of knowledge in developing economies. This, in turn indicates the significance and originality of the current study.

2.2 Small Business and the Financial Control Theory :

An overview of the literature generally indicates that most research work on small business has centred in the exploration of the finance gap, whereas the financial control profile of small firm is a delicate area in the literature. The little writing on financial control characteristics of small firms is replete with information on growing and super-growth firms, which reflects the weaknesses of the literature.

It was established in the body of knowledge that the financial control systems operated by the small firm in developed and developing economies tends to be inadequate and sometimes non-functional to efficient operations (Lovett, 1980). In western industrialised developed countries - U.K. - Bolton (1971) found that :

> "Cost control and costing date are often so poor that management frequently learns of an impending crisis only with the appearance of the annual accounts or following an urgent call from the bank manager."

Said and Hughey (1977) provided support to the Bolton Committee, arguing that the main problem in record-keeping facing many small firms in the U.S. was a complete lack of an organised information system. "Still other firms may have some form of financial records, but they lack the details necessary for managerial decision making, and for reporting to the firm's liquidity position." Boswell (1972) went further, arguing that the attitude to control, poor accounting records and inadequate control systems have often been the reasons behind the decline of small businesses. Ray and Hutchinson (1975) in the Bath Study went further, by building a relationship between stage of growth and the degree of sophistication of the financial control system, providing support to the statement of Lievegrd (1973) that the financial control systems based on plans and budgets become essential if growth is not to be inhibited.

Little writing and literature on this area emanating from developing countries provides support to the literature and findings in developed economies. Ohioma (1979) found that in small firms there is a disinclination to utilise records for the purpose of control. Osaze (1981) concluded that : "......... In terms of accounting information accummulated by small firms in Nigeria is little doubt that there are by and large rudimentary." To contribute to this infancy body of knowledge and this difficult and delicate area in small business research, this study will address empirically the question of what is the financial control profile of small firm at inception, and at the growing stage of development, and to what extent is interacted with financing.

2.3 Family in Small Business Literature :

A family as an influential factor in business management has been recently considered by scholars in developed and developing countries (Leyder, 1983; Galder, 1973; Beckhard, 1982; Bolton, 1971; Bosa, 1978; Osaze, 1981). The family became important and significant in the western literature (American and British) as a result of the study conducted in the U.K. and U.S. showing that eighty percent of small firms in the U.K. and U.S. are family owned and managed (Bolton, 1971; Beckhard, 1982).

In developing countries, family contribution is a controversial issue between development economists and other writers. One view points out that the prevalence of family firms is frequently an inhibiting factor on growth; others have pointed out that family is a main source of finance and management cadre and trusted personnel. The literature so far suggests that while small firms' entrepreneurs depend rather heavily on the extended family for seed capital, they rarely receive funds from the family for expansion purposes. Osaze (1981) in Nigeria placed emphasis on family influence in the growth of small businesses as a supplier of funds and on how much profit was retained for business growth and how much withdrawn for family reasons. Bosa (1978) had studied the family as a social and cultural factor in creating businesses in Uganda.

The literature in this area had focused on strengths and weaknesses of family business at the growing stage of development, the family involvement in ownership and management as well as financing. The little writing in this area is highly descriptive and not based on rigorous analysis. Bannock (1984) identified a literature gap in this area by stating that :

> "Most books and articles written on family influence in small business management are non-academic and therefore non-technical."

The remaining un-answered question in small business body of knowledge which will be addressed empirically in this study is the degree of family influence at inception stage in terms of motivation to set up the business, continuity and growth, and its degree of influence on financing and management of the business at various stages of development (inception and growing).

2.4 Entrepreneurship :

Kilby (1971) writes that "the search for the source of dynamic entrepreneurial performance has much in common with hunting the heffalump". An entrpreneur is a controversial issue in economic and management literature. One paradigm suggests that entrepreneurial formation results from the interaction of social and cultural forces, whereas McClelland's theory was based on an economic approach. In developing economies, there is keen debate between development economists on the question of whether there is a capital gap or entrepreneurial deficiencies in these economies. In developed countries, a number of researches have been conducted (Stepanek, 1967; Boswell, 1972; Bolton Report, 1971) to explain the relationship between financing and entrepreneurial gap. Research in developed economies has identified the existence of entrepreneurial deficiencies. The Bolton Report (1971) in the U.K. found that :

> "The overall standard of management in small firms is low because the routine administration side of management which consumes so much of the small businessman's time is not properly systematised and delegated."

On entrepreneurship research, Vickery (1986) articulated that : "If management is the poor 'relative' of academic research, it is no exaggeration to say that entrepreneurship is the poor relative of management research ....entrepreneurship has also been neglected because the study of management has tended to be limited to the study of large companies." Timmons (1978) states that more research in this young field of entrepreneurship should yield further insight into our growing body of knowledge. In explaining and indentifying the knowledge gap in entrepreneurship, Timmons (1978) adds that "while numerous studies have yielded important insight into entrepreneurship, it is important to recognise that the available knowledge represents the tip of the iceberg, with areas of agreement as well as continuing debate".

The weaknesses of the literature on entrepreneurship is that most of the writing and empirical investigation has focused on successful entrepreneurs, owning and managing growing and supergrowth firms (for example, Bolton, 1971; Ahmed, 1980; Osaze, 1981). The main weakness of the literature is that it is replete with data and information on entrepreneurship in developed economies. In developing countries very little empirical research has been done on entrepreneurship (F.O.E.R., 1981). Gazze (1982) argues that the literature on entrepreneurship is descriptive and fragmented.

Review of the literature on entrepreneurship and state of knowledge, four streams of entrepreneur research could be identified (Paulin, Colley and Spaulding, 1982) :

(1) The entrepreneur as an individual,

(2) the processes or mechanics of entrepreneurship,

(3) the functions of entrepreneurship in society, and

(4) the supporting topics.

Research studies focusing on the entrepreneur as individual (McClelland and Collins, Moore, and Unwalla) have developed a variety of entrepreneurial models and approaches to study of entrepreneurial characteristics, personality and behaviour. Some writers in this area (Knight, 1983) have drawn the inference that the objective and

-

motivation in setting up the business as well as personal traits could be taken as a differentation device between successful and unsuccessful firms. This type of investigation is based on predictive rather than descriptive approach of analysis of entrepreneurship.

Entreprenenurial motivation is a controversial issue in the literature. According to one school of thought, the sociological event is the major motivating factor in the creation of a new venture. Those who support this approach emphasise situational conditions (Shapero, 1975). On the opposite side are those who argue the physchological factors are the key to understanding the entire entrepreunerial process. This school of thought is led by McClelland, introducing into the body of knowledge the need for achievement theory. The McClelland approach has been criticised by scholars on the ground that it restricts the drive to achieve to economic activity alone. Within these schools of thought a variety of research work has been conducted (Aboud, 1978; Horandy, White and Welsh, 1982), coming out with different views and opinions. Gazze (1982) attributed the lack of consenus on motivation to the interpretation and measurement of data. This research effort will address this controversial and debatable issue in an attempt to provide insight into understanding of this elusive phenomenom in developing countries.

A number of studies in developed economies have attempted to determine the correlation between entrepreneurial characteristics and entrepreneurial activities and performance. Age and education have frequently received attention. The years between 25 and 40 have frequently been mentioned as the age when the entrepreneurial decision is most likely to be made in developed economies (Shapero, 1971; Mayer and Goldstein, 1961; Cooper, 1973; Howell, 1972). The review of the literature in this area indicates that there is no consensus on the age at which the entrepreneurs debut their businesses. With respect to developing economies, the literature and state of the art shows that there is a knowledge gap. Regarding education, there are different views and opinions on the level of education of entrepreneurship in developed and developing economies. Most of the research in this area correlated level of education to size and growth of the firm. It was established that the level of education is positively correlated with growth and size of the firm. The main question to be addressed in this research is to examine the entrepreneurial level of education in relation to inception, growing, declining small firms and large enterprises in developing economies.

There are very few studies in the literature on entrepreneurial as an individual dealing specifically with the relationship between the entrepreneur's past experience and his motivation as well as performance. Carroll (1965) pointed out that the experience gained in previous ventures had probably been one of the most important factors in the ultimate success of manufacturing entrepreneurs in the Phillippines. An American study by Mayer and Goldstein (1961) has shown that previous business experience rather than formal schooling, provided the most significant training for business ownership. Similar findings have been reported by Lomont (1972) and by Cooper (1970). This study will address this relationship, with emphasis on the influence of previous experience on the motivation, ownership and management of manufacturing entrepreneurs in developing economies - Sudan.

2.5 The State of the Art :

As the general theory of finance stands today, most of the current issues tend to relate to the larger companies in developed countries rather than the larger and smaller firms in developing countries. In the U.K. Curran and Stanworth (1982) argue that "........ Big was still seen as beautiful and growth was seen as the key to the treasures of increased economies of scale."

Most of the writing on small business in developed economies represents a body of descriptive knowledge and is primarily concerned with the old question in the theory of finance, in the sense that it is preoccupied with the raising of funds rather than optimisation of funds. Ray and Hutchinson (1983) argue that "Raising finance is no longer a problem in itself. The problems become those concerned with the optimisation of the finance function." Very little research work has addressed the question of optimisation in small business financing.

There are several deficiencies in literature focussing upon the financial control characteristics of the small firm. The overwhelming majority of this literature is descriptive, anecdotal and based upon the authors' general experience, usually with large firms. Limited research work has been undertaken focussing on the financial control of small business. On entrepreneurial research suffice it to state the comments of Gazze (1982) :

> "The literature on the entrepreneur as an individual is often exploratory and not well integrated."

Recent reviews of the small business sector by the World Bank (IBRD) indicate that there is relatively little information on this matter for developing countries in general, and a paucity of data on Africa in particular. This is an indication of the gap of knowledge of small businesses in developing countries (Storey, 1983). Review of the literature shows that not very much is known in developing countries about the financial structure and financial profile of small firms, and what are the specific difficulties, and there is no empirical answer, even for the old question in the theory of finance. The state of the art of the body of knowledge in this area is very general and most of the little writing on small business is mainly descriptive, others are prescriptive, lack hard facts and do not provide a comprehensive or integrated analysis of the organisational, financial and ownership structure of small firms (Besong, 1978). Green (1977) added that :

> " There are as yet no significant or empirical (such as the Bolton Committee Report in the U.K.) on small businesses in developing countries."

The objective of this study is to participate in closing and filling the small business conceptualisation gap, and to contribute effectively to small business body of knowledge and particularly in developing economies. The theme of the research work and its scope indicates the originality and significance of this empirical investigation. The academic justification can be seen clearly from the fact that no empirical study has been undertaken to examine the traditional view of financing theory for small firms at inception and growing stage of development from the demand and supply-side perspective - multi-dimensional approach.

Having identified the research question, its accommodation in the body of knowledge and its academic and practical justification, the main and focal point in this scholarly process now to be raised is what is the academic approach to be followed, and what is a suitable framework in which to address the research question. To this point we direct attention now.

CHAPTER 3

ANALYSIS OF CASE STUDIES ANALYTICAL FRAMEWORK AND GENERATION AND DEVELOPMENT OF THE RESEARCH HYPOTHESES

3.1 CASE STUDY APPROACH :

In their article "The case of Qualitative Research", 'ABR, winter, (1979)' Morgan and Smireich stated that :

> "The choice and adequacy of a method embodies a variety of assumptions regarding the nature of knowledge and the method through which that knowledge can be obtained, as well as a set of root assumptions about the nature of the phenomena to be investigated."

Downey and Ireland (1979) added that : "The most relevant of the presuppositions that determine one's research perspective is that methodological issues must always be answered within the context of a particular research setting. That it to say, methodologies are neither appropriate nor inappropriate until they are applied to a specific research problem".

Due to the nature and scope of the research work, focusing on financing and financial control issues of small firms at various stages of development and the nature of phenomena need to be investigated, controlled and predicted, the research process has been broken down into two stages :

1. The development of the research hypotheses.
2. The empirical test of the research hypotheses.

(See Figure 3.1

Based on this classification of the research work, the initial field work was a pilot study, exploring the research setting, testing empirically the conceptual framework and developing a testable research hypotheses.

In developing and formulating the research hypotheses, a case study approach has been used as a methodology. In his article "The use of case studies in the Integration of Research and Teaching in Management Education", 'Management Decision, 1975' Ray stated that : "Unfortunately 'case research', 'case development' and case 'writing' are used interchangeably .... It is necessary to distinguish between a 'teaching case' and a 'research case'." The Harvard definition of a teaching case is "a record of a business issue which actually has been faced by a business executive, together with the surrounding facts, opinions and prejudices upon which executive decisions had to depend". Ray (1975) defined a research case as :

> "The 'research case' .... has two parts. The first is descriptive of the total observed situation and the addition of the second part, the diagnosis of the situation, makes a permanently useful research document."

These definitions of 'teaching' and 'research' case study were used by a number of scholars including Bennis (1960) and Hagg and Hedlund (1979).

The vital question that could be raised in this context is why case study approach has been selected as a methodology for the generation and development of research hypotheses and not for testing them? The main reason behind the selection of this approach at this stage of the research process is to reduce the scale of the research by focusing on a smaller number of units than would otherwise be involved, as well as increasing the range of different units within the study (Moore, 1967). Moreover, the selection is based on the argument that the case study approach is appropriate for generating hypotheses, but not for testing them. Locke added that :

> "Case studies can be very valuable as a source of hypotheses about the psycho-dynamics .... Such hypothesis might never emerge from a questionnaire study because the relevant questions would not have been asked."

Ray (1976) added that : "The research case, properly conceived and used can be effective means of :

- accurately observing things and events
- providing intimate and habitual familiarity with things
- providing diagnosis of situations which lead to concept and generalisation."

This approach has been used in the Bath Study (1975-1979). Davis (1984) commented that : "...... this, however, is of lesser consequence than the valuable insights for further research which their approach developes."

This approach of dividing the research process into two stages has been criticised by some writers and researchers. Hagg and Helund (1979) argued that :

> "Although we acknowledge the comparative advantage of case studies in hypothesis and theory generation, we do not think that the making of such a sharp distinction between the two stages of the research process or the relegation of case studies to the former stage alone constitute a fruitful approach to research and enquiry."

The main arguments that could be raised against the statement of Hagg and Hedlund (1979), is that the risk of hasty conclusions is great in using case study for generalisation. The second point is how to free the research from bias in selecting a case study, because reasons for getting involved with this or that company can often be vague and choice beyond the control of the researcher.

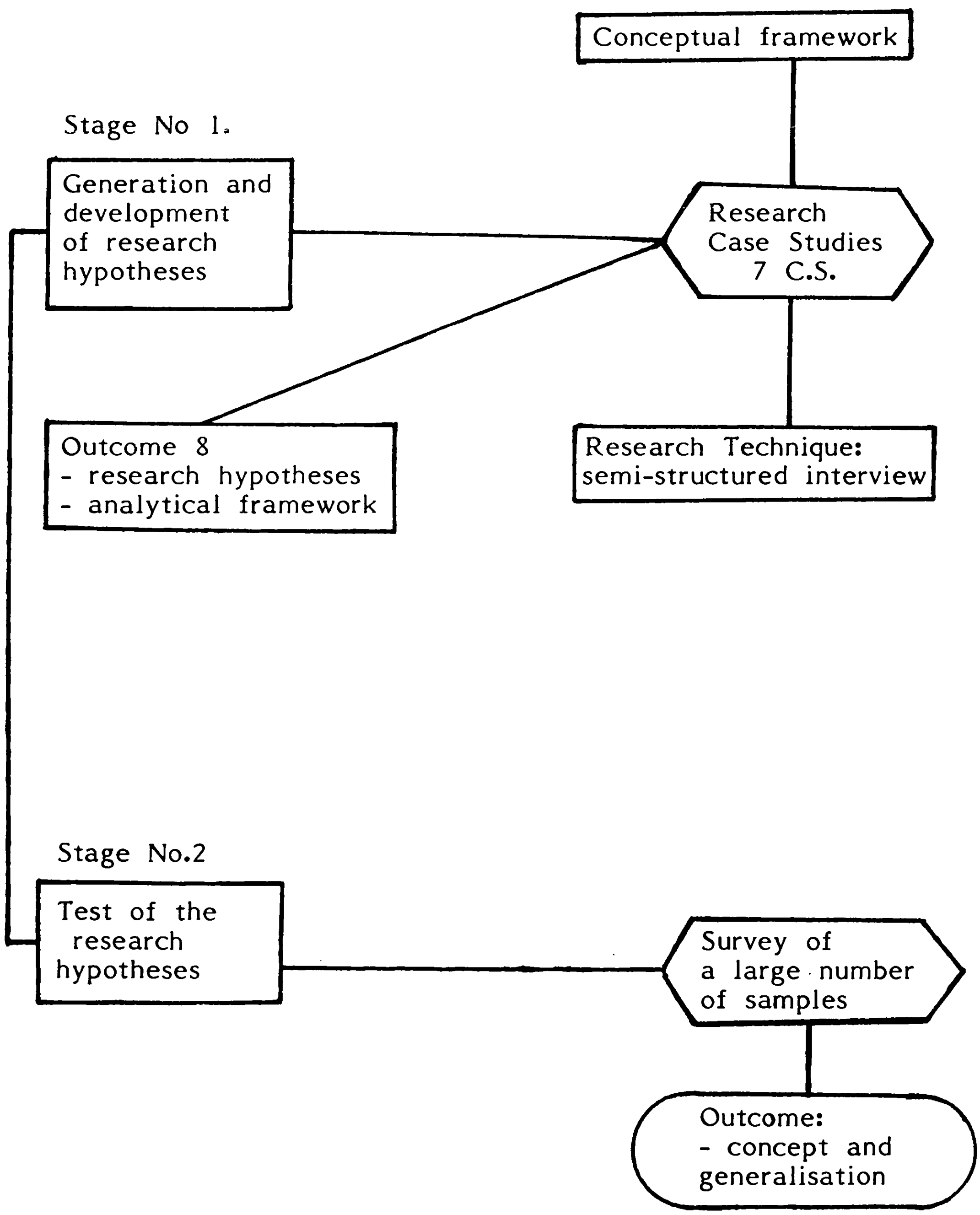
The case study approach is not foolproof, in the sense that it does not free from problems and difficulties. Hagg and Hedlund (1979), enumerated some difficulties in scientific control over the process of the use of case study approach as follows :

- The methods of generating information in a case study.
- The mode of presentation of the information.
- The procedures for reasoning about the data.
- The rules for judging the validity and reliability of the observations.

It is important in all case studies, as well as in all kinds of research, to relate observation to some general framework. Therefore the research case studies (see Vol.II) have been directed to focus in-depth on the conceptual framework of the study (see Figure 3.3).

The case studies focusing on small firms at various stages of development (see stage model, Figure 1.3) have been augmented by conducting interviews with bank managements and bankers. A public seminar organised by the author and the supervisors on small firms in the Sudan so as to raise the issue before interested parties, and as a methodology for access to the research universe. This process facilitated conducting the second stage of the research process.

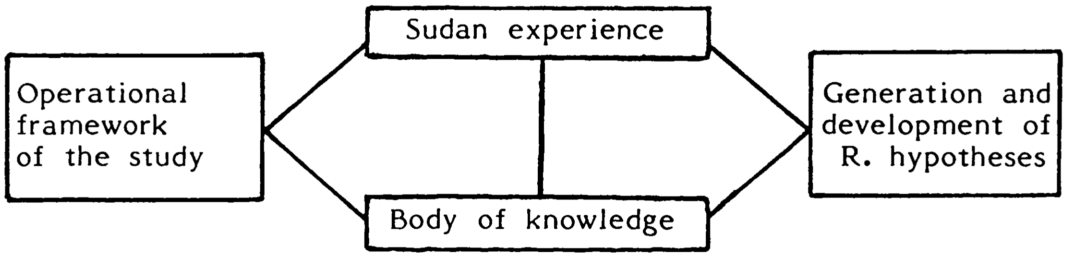
Figure No.3.1 Stages of the Research Process



3.2 ANALYSIS OF CASE STUDIES:

The purpose of the case studies is to examine the financing characteristics and financial control profile of the small firm at various stages of development in the Sudan. The analysis of the cases was built as well round the operational framework, attempting to explain the state of the art, and to establish a foundation of analogy between the Sudan experience and the body of knowledge.

Figure 3.2



3.2.1 Financing Characteristics and Financial Profile:

The detailed analysis of the sources of finance of the small firm at inception shows that small firms start by relying on owners' and family resources as a main source of initial capital. Small firms did not issue equity capital in Sudan. The main reason why small firms at inception depend largely on private sources is that they do not have accommodation from short and long-term credit institutions. In the Sudan, loans tend to be provided with high security and collaterial requirements, conditions which are unlikely to be satisfied by a typical small firm at formation stage, built round the personal savings of the owners and family resources.

The common problem for all small firms and particularly the small firm at inception, is that no public commercial bank is allowed to make long-term loans of more than 5% of its credit ceiling. According to the Central Bank's credit policy, the joint venture and private banks have to allocate 25% of their loanable funds to long-term investment. In this regard, Awad (1984) stated that Islamic and private banks in the Sudan are reaping vast profits through short-term trade financing, rather than developing the economy through long-term lending to development projects. The founder of the Kissra-making factory (case study No.6) confirmed the statement of Awad, by adding that :

> "With my meagre financial resources .... , I managed to develop my machines to the stage where I actually put it to the test of full-scale production. The results were very gratifying and I started looking round for buyers, partners and financiers. But the response was disappointing, and I had to go it alone."

In responding to the question on the bank financing the start-up capital needs of the small firm, the director of one of the Islamic banks (T.I.B.) argued that there is a conflict of interest between entrepreneurs and banks. "Entrepreneurs are profit - and social - status seekers which conflicts with the bank's measures to control its resources under Musharaka financing."

The pattern of financing of small firms at inception has an implication on the financial profile. The reliance of small firms on personal savings in a country with a low saving margin (U.N.,1978) results in insufficient financial resources to establish a business. The insufficient start-up capital is a good measure of the under-capitalisation profile of small firms at inception stage (Mao, 1978). The two research case studies, taken as an example of the small firm at inception, displayed liquidity, low profitability and low gearing. Liquidity could be attributed to the fact that small firms at inception were forced to provide their own internal finance. Liquidity was measured by depicting a relationship between current assets and current liabilities (current ratio) and working capital ratio (see case studies). The low gearing profile maintained by small firms at inception, is not only attributable to lack of institutional sources, but also to the typology and profile of the entrepreneur.

Given the above facts, it is possible to see a start-up capital credit gap to small business from institutional finance. This observation provided confirmation of Weston and Brigham (1978) traditional view theory, with a modification of the family as a main source of finance at start-up.

The in-depth analysis of the sources of finance available to the small, growing firms, shows that small firms at growing stage rely on private sources, retained earnings, and institutional finance of a short-term nature. The use of retained profit in financing business operation is a good indication of profitability, degree of profit retention and implicitly could explain the lack of institutional long-term finance. Trade credit could be considered as a main and cheapest source of working capital finance, representing 70-80% of the total debt of small firms sample.

Regarding the working capital finance, small firms, at various stages of development, experienced a persistent problem in raising satisfactory finance from the capital market. The internal resources augmented with insignificant institutional finance, could be considered as a main source of finance of working capital needs of small firms at inception. The growing firm is in a better position, in obtaining working capital finance from external sources. This could be explained by the fact that businesses that have been in existence for a long time easily got institutional finance. This finding reflects the influence of age, size and security as factors influencing use of external sources of finance, and explains the difference in the financing pattern of the small firms at inception and growing stage of development.

As far as expansion and development finance is concerned, small firms at inception and growing stage of development rely on capitalisation of earnings and other family and owners resources in meeting expansion as well as inflationary needs. The lack of institutional long term finance could be considered as a main reason behind the slow growing rate of small firms. In the 'U.N.I.D.O.' Report (1984), an observation was made that the pattern of growth and the field of activity of the small enterprises in the Sudan has remained more or less the same over the years. There has been a big rise in the total number, but the pattern of growth has been horizontal. The founder of a small growing company (Case Study No.4) added that :

> "Due to non-availability of long-term finance, as well as a very short-term finance nature, we could not expand the operation of the company."

The reliance of small growing firms on short-term financing has an implication on the liquidity scene and profile of small growing firms in the Sudan. The low and illiquidity profile maintained by small growing firm is consistent with the body of knowledge finding. This low liquidity profile brings about a high financial gearing expressed as a relationship between debt and equity, and compensated to some extent by a certain degree of profitability. The small growing firm shows that the retained profit in relation to total assets is low (10%), which questioned the degree of adequacy of retained earnings to meet development needs, in the absence and lack of institutional long-term finance. The low retained earnings are not attributable to dividend policy, rather that to profit generated by small firms under the pricing policy determined by the Government, and highly influenced by the big producers. The legal profit margin based on cost and mark-up was 15%, decided and controlled by the Government.

There is a wide or even universal agreement between scholars (Abdel Sammed, 1978; Knight, 1983; Boswell, 1972) that lack of finance is one of the prime causes of failure of the small firm. The initial field work confirmed this statement in the Sudan, since finance and its shortage is a common problem in all developing countries, and the Sudan is no exception. The research case studies on the declining stage added another dimension to causes of failure, i.e. misallocation of financial resources and the attitude of the entrepreneur or vision (mechanz model). The S.P.C. (Case Study No.7) was financed heavily by the commercial banks (L.S.3-8 million), but the major problem was poor financial management. The analysis of sources of finance available to small firms at declining stage shows that these firms obtained finance on short-term basis, and shifted into long-term use in and outside the business which put the firm's survival in jeopardy. The financial behaviour of the small firm at the declining stage has implications for the financial profile that could be read as illiquidity/ insolvency, accelerated losses and high financial gearing. Due to the criteria used by banks in providing funds to clients, based on factors other than the creditworthiness, the declining firms succeeded in obtaining institutional finance under re-organisation stage or at the process of change from one line to the other.

Table 3.1

Source of Funds:

Sources of funds	Inception	Growing	Declining
1. Personal savings	X	X	X
2. Owner's family	X	X 'exp'	X R.E.
3. Owner's brother & sister	X		
4. Trade credit		X	
5. Retained profit		X	
6. Comm. banks' loans	X (i)	X	X
7. Dev. B. loans	X (ii)		
8. Long-term loans	N/A	N/A	N/A

(i) insignificant w.c. finance
(ii) start-up capital finance
R.E. Re-organisation - Re-financing

Regarding the degree of difficulties small firms experienced in raising institutional finance, all firms in question (7 case studies) reported that the cost of borrowing is too high and prohibitive. The cost of finance within the banking system ranged between 18-24 percent or more. According to the Central Bank credit policy, with the objective of constraining the growth of money supply in the capital market (1983), the minimum interest rate decided by 1983/84 policy was 17%. The higher cost of finance is a major problem to small businesses and small firms at inception, in particular because large and well established firms are prepared to borrow at any rate, because of the quick turnover of their businesses and their higher degree of influence on the pricing of products at approval at governmental level and in the market. The use of bargaining as a method of financing-cost determination under Islamic banking system puts small firms with inexperienced and poorly educated owners at a disadvantage.

The entrepreneurs of firms in the case studies reported that the other biggest problem in finance was the provision of acceptable security and collateral required by the financial institutions. The types of security needed by banks to provide short and long-term finance as reported by entrepreneurs are : (1) mortgage, (2) stock in trade and (3) guarantees. The guarantees and guarantors are the major requirements for most business loans not exceeding L.S.30,000. Under Islamic financing instrument - 'Murabaha', post-dated cheques are used as a security.

Banks and Small Business Financing: The relationship between the banks and small firms was criticised by research interviewees from the demand and supply-side, on the grounds that no bank has a defined policy for small firms. There is no definition for what constitutes small business in any financial institutions operating in the Sudan, including the public development bank (S.I.B.). A focal point and vital questions were raised on this issue by industrialists : Is the banking system in the Sudan capable of handling small firms problems? Is the banking system ready for this new approach of Islamisation? Do the banking systems have the ability and qualified staff to deal with these new approaches to financing and to what extent can they be accommodated in the small firm environment? There was a concensus and agreement that the banking system and bankers in the Sudan are not qualified to run their own traditional simple banking system, and therefore not able to assess business operations.

> "Bankers are trained in banks which are size-orientated and are traditional. We need new trained bankers to satisfy small firms."

This contention and allegation received the support of some bank managements (F.I.B.). "The banking system has to be changed so as to furnish room for small firms." Thus, there was a recognition in the professional and small firm circus that the small firm is at a disadvantage in obtaining institutional finance. The lack of a policy for small firms in the banking system, and at the level of the Central Bank, is an indication of financial policy gap on small business in the Sudan. Small businesses experienced not only the difficulties of raising finance from banks, but also neglect and ignorance in the banking circus.

Raising of Funds Approach: Most of the entrepreneurs and management of small firms in question reported that the financing is approached through personal channels, in the sense that they capitalised on their contacts and relationship with banks' management, senior bankers and government officials and political power (s.p.c. case study No.7). The founder of a start-up company stated that :

> "We did not present any financial documentation to the bank for financing. The banks provided funds on the basis of the personality of applicant and the viability of the project."

The founder of the Kissra-making factory (case study No.6) confirmed this contention by adding that :

> "What may be accepted as exceptional, however, is not the kinds of problems I encountered but the exceptionally fortunate position in which I found myself. The majority of the top people in Government; banks; or other institutions were my contemporaries from school days or else knew me through other contacts."

We can conclude from these statements that contacts and personal channels are very important media in raising institutional finance in the Sudan. This view has received support from the supply-side, under Islamic financing instruments.

> "Due to the problem of delay in debt repayment which curbed under interest-based system by compound interest, the Islamic banks must be careful as to whom they lend their money. The personality and profile of the client is our focus."
> (F.I.B. 1982, 'Salama')

In his paper on the evaluation of Islamic banks practice in the Sudan, Awad (1984) added another dimension to the criteria used by banks in providing funds to clients under Islamic banking mechanism. He stated that : "The charge of favouritism is hard to prove or disprove. Almost every bank has some favoured clients and 'FIB' can not be an exception, and in this case an ideological bond between the bank and many of its shareholders and clients strengthens the charge."

Regarding documentation and the level needed to provide funds, most of the entrepreneurs supported that documentation is important as a back-up of the case introduced through personal channels.

From this review of the small firms' pattern of financing, availability of long-term finance, cost of bank borrowing and the difficulties experienced in raising finance, the conclusion can be drawn that there is a small firm finance gap in the Sudan.

3.2.2. Entrepreneurial Characteristics and Profile:

In addressing the issue of an entrepreneur as an individual in this study, an entrepreneur has been defined as an "owner and manager of small enterprises". This working definition is accommodated within the Schumprian school of thought, which is followed largely by the present-day writers and theorists in the field of entrepreneurship (see Chapter 4).

Entrepreneurs of the small manufacturing firms in question (research case studies) could be classified into two types :

1. Those originating from trading and family businesses, and
2. Ex-government and private companies' officials and employees.

These different types of entrepreneurs vary considerably in background, education level, experience, vision, in the way the company is financed and managed, and in the management style adopted.

The creation and formation of the small firm in the Sudan is partially influenced by that sort of classification. In setting up a business, ex-government employees were influenced by the dissatiscation with the government job, previous experience in the line of industry, self-actualisation and the desire to maintain independence and to be a 'boss'.

> "I entered the field of business to stand on my own; to build my image and reputation out of my business. Moreover, the government job was too narrow to embody my ambitious and innovative ability."
> (Case study No.6)

On the other hand, entrepreneurs who originated from trading and family business put more emphasis on family dimension, financial gain and the early-life time work as main motivating factors for setting up their own businesses, within the family or supported by the family at various stages of development.

> "I was encouraged by my father to build my own image and name, following the way of our grandfather. The factory was financed by the family business as a reward for 12 years of loyalty to the family and to give a chance for my brothers to take an active role in the family business rather than segregation of the family wealth." (Case study No.2)

In this group we noticed that the family tradition in financing and management of the business was very strong and the entrepreneur was surrounded by his family members.

This sort of classification of entrepreneurs into ex-government employees with a high level of education, technical knowledge and desire for independence, as compared with other group, does not mean that the first type is not influenced by family and financial gain and vice versa. But the vital issue is the degree of weight of the motivating factor. Based on the seven case studies, the profile of an entrepreneur as an individual in the Sudan could be set within the psychological, sociological and situational school of thoughts into three categories :

a) <u>Points of direct convergence</u>:

- Family-orientated
- Independent orientated
- Influence of past and previous experience
- Image and self-actualisation
- Financial gain

b) Points of in-direct convergence:

- Growth orientated
- Ex-government employees were highly educated whereas other types were less or lower educated.

c) Points lacking convergence:

- Innovative ability
- Early-life time work
- Management training and education.

The attitude and profile of an entrepreneur towards financing has been seen by the bankers as an inhibiting factor (Musharaka finance). One of the entrepreneurs commented that "I have no objection on the bank involvement in all operational decisions, but there should be a certain limit to the bank's involvement. .... bank's representative behaves as bank employee, regardless of the reputation of the business, image and the name of the owner". Some entrepreneurs did not approach institutional finance on the grounds that it was usuary (Haram) and against their belief and independancy. Thus, the entrepreneur's attitude, belief, understanding and the desire for independence, shaped the financial structure of the firm. The classification of entrepreneurs in relation to raising of institutional finance could be seen clearly through the statement of one of the bankers (N.B.) :

> "Some entrepreneurs are not able to identify and quantify the amount of additional finance they need, and have no idea of the cost of their projects."

These types of entrepreneurs, with different characteristics and background, could be explained further so as to see their implication for the management of the business. The ex-government employees, in managing their businesses, were influenced by their past experience in well-formalised enterprises whilst those originating from traditional trading and family business were highly influenced by the way the family and trading business is managed. The initial field work shows none hard surprising result that the level of sophistication of the financial control maintained by the small firm is highly influenced by the entrepreneur characteristics and profile. The attitude of entrepreneurs with a low level of education and lack of knowledge of management theory and technique could be interpreted through the statement of one of the entrepreneurs :

> "The accounts section exists mainly to provide information on tax and excise duties. Financial information related to banks and other decisions are kept in my diary."
> (Case study No.7)

This statement could be compared with the statement of the owner of a small firm (case study No.1) who was an ex-government employee and received a formal education and management training : "The financial control system stood as one of the weaknesses of management, it is incomplete, historical and of no use in reflecting the actual position. The outcome information is not helpful in decision making. This is the area that needs more attention and consideration."

These statements are not quoted to show that the financial control systems, maintained by small firms managed by entrepreneurs from group two (ex-government) is more adequate than the other, but simply to show the effect of background, origin of entrepreneurs on their attitude towards financial control. This observation, which provides support to Boswell's (1972) finding in the U.K., has been confirmed a by professional accountant who was involved in one of the case study companies (case study No.3) :

> "The problems of accounting, and the financial control in this sort of company, are a function of the mentality, management and business knowledge of the entrepreneur. To introduce an adequate system, you need first to change the perception, mentality and attitude of owners."

The observation in this area is that the entrepreneur in the Sudan lacks managerial skills. This lack of managerial skill can be separated into misconception, misunderstanding of proper management, and the proper and best way to organise their businesses. Thus, the initial field work has identified entrepreneurial deficiency in the Sudan. The focal point needing to be raised in this context is what kind of institution should be set up in the Sudan, so as to raise the standard of small business management practice.

Taking the Súdan experience, in conclusion, we could restate the statement of Cooper (1983), by contending that the motive of an entrepreneur for going into business as well as his characteristics and profile determines the financing, management and the expectation of the firm.

3.2.3 Family Influence:

The in-depth analysis of the research case studies indicates that the family stands as a main source of finance at various stages of development with certain variations. The family stand as a main source of long-term financing to small business at zero cost. The family financing of the working capital needs of small firms at inception was so significant, constituting 80% of the total debt finance. In the growing stage of development, we noticed that the role of family in business financing confined to retained profit (foregoing of dividends). The initial field work shows that the role of the family in business financing goes inversely to the expansion and development. This could be attributed to the success of the growing firm in finding access to an external source of finance.

The involvement of the family in the business has been considered by most interviewees (five out of seven) as a key success factor. The arguments of entrepreneurs were based on loyalty and commitment of family members, as well as the secrecy of the business.

> "I have the belief that the main factor behind the success of any business is the commitment and loyalty of its employees. To secure this success factor, I have built a great link and connection between the business and the family." (Case study No.5)

Another entrepreneur added on other dimensions, stating that :

> "Industry is based on secrecy and I have the conviction that the right people for this sort of secrecy are the family members. Moreover, by Quren and Hydith, we are asked to think in terms of family."

It was observed that the accountability, defined lines of responsibilities and certain degree of formality were sacrificed by the family business. This symptom clearly could be observed at inception stage - pioneer enterprise. In the growing firms, the accountability, formality and family involvement relationship was maintained with a certain degree of variation. This finding implies the difference between starting-up and small, growing firms at managerial level.

> "Although DPP was owned, controlled and managed by the family, we treated the company as a separate entity in the sense that it was registered as a limited company so as to strike a balance between the business objective and family affairs."
> (Case study No.5. S.G.F.)

We observed that the involvement of family in financing and management of the business throughout its stage of development, was followed by human and organisational problems. In the family business, there is a confusion of the role of financier, investor and manager as well as family members. This confusion of roles in connection with formality and informal involvement of family members, was considered by the co-founder of one of the declining firms (case study No.7) as one of the main reasons behind the collapse of the company. One aspect of family management which often causes problems with regards to succession and its effect on business, is the family insistence of having one of its members serve as a chief executive on the grounds that he is an elder son. The researcher observed that the management succession plan impicitly and explicitly was built round the hierarchy of the family. The director of the public bank (S.I.B.), which was highly involved in financing one of the declining firms (case study No.7) added :

> "The introduction of family members into .... (usually at higher echelons in the hierarchy) acted as a frustrating and alienating factor, as far as other personnel (professional) and their career were concerned."

From this review, we may conclude that family is an influential factor on financing and management of small firms in the Sudan, as a socio-economic phenomenon, deriving its power from the extended family concept, which is itself a cultural factor. The main finding of this review is that the role of the family in financing business operations correlates inversely with growth, whereas its degree of involvement in management correlates positively with expansion and development.

The first part of the finding could be used to modify the traditional view of the financial life cycle of the firm (Weston and Brigham, 1978) by adding family to owners resources at start-up stage. This modification stems from the fact that the subject theory has been developed for developed countries, with different economic, social and values. The second part of the main finding is inconsistent with scholars inferences (Peiser and Wooten; Mansen, 1969; Levington, 1971) in the field of the small firm management, pointing out that growth is often accompanied by professional management. Due to the social structure of the Sudan, and family pride, the family domination of the firm has a special problem in attracting outsiders and professionals in particular.

3.2.4 Financial Control:

The in-depth analysis of the research case studies revealed that the organisational structure of the small firm is very simple (sometimes does not exist) and in most cases is built round the structure and the hierarchy of the family. The organisational structure in most enterprises is confined to authority and direct control, which could be attributed to the kind of entrepreneurs and management status. It is noticed that entrepreneurs are unwilling to dilute their personal power and control over their businesses, and this creates some sort of in-fighting between entrepreneurs belonging to the older generation and the new generation within the umbrella of the family. The organisational set-up of small business does not reflect the actual practice of the decision-making process, as could be found in public and private large enterprises. The founder of a super growth firm (case study No.5) told that :

> "The decision-making process in the DPP is tailored round the interest of the company regardless of the routine and formal procedure. We have the belief that adherence to rules and regulations, and formal channels is the sort of bureaucracy which destroyed the future of public enterprises in the Sudan."

The body of knowledge shows that there are two predominant styles of management : authoritative (classical) and participative and consultative approach (modern). The pilot study shows that the management style of the small firm within the context of these two schools of thought is a function of the owner's perception, experience, degree of family and bank's involvement and stage of development. The case studies reflect that the declining companies are managed largely by the authoritative style. "We follow an instruction style so as to recover from collapse" (case study No.7). The founder of the other declining firm (case study No.6) stated that :

> "The way I managed the factory has been conditioned by the nature of invention, the uniqueness of the factory and size. The authoritative style is the most suitable approach."

In the business highly bounded by family members, we observed that the management style is informal, participative, and consultative at the top level (dominant by family members) and authoritative at the lowest level. This combination of management style has received a justification from a founder of the growing company (case study No.5), who told that :

> "We do believe in the participation in the decision-making up to the level of junior workers, but on the other hand, we do believe in direct supervision and authoritative style."

The Managing Director of one of the growing companies (case study No.5), who received a higher formal education and an adequate formal management education and training, related management philosophy to growth of the business, as a key factor, adding another dimension of management philosophy of small business in the Sudan. "We thought that the way we handle and treat our employees is the main reason behind their loyalty, devotion and commitment. The material evidence is that the company employees have no trade union, which is eligible and the DPP is managed as one family following the 'Far East style'."

The case studies reach the hardly surprising conclusion that management of small firms in the Sudan are themselves unaware of their proper aims and objectives. In the light of lack of objective recognition, the performance evaluation in most cases is built round the manufacturing equation, in the sense that the entrepreneur assesses the operation of the company, by comparing output with inputs used (physical and material). The vital question to be raised is to what extent the management style, entrepreneurial attitude and profile shape the internal control system maintained by small firms. (The Bath - Investigative approach.)

A common symptom in small firm practice at all stages of development, as revealed by the research case studies, is that the control of cash was given high priority. Moreover, the owners were in charge of detailed work on cash control, debt collection, stock control and creditors and banks' arrangement. This observation indicates the importance of cash flow to small business as well as the perception of entrepreneurs towards cash management.

Based on Livingstone (1970) classification and categorisation of the accounting system into techniques, manpower and output, the accounting system maintained by small firms will be evaluated. The researcher observed that the accounting records maintained by small declining firms (6 & 7) are very crude and confined to a collection of receipts and cash vouchers kept by the owner, who is in charge of all details. The accounting records dealt only with what was produced in physical terms and there are no annual financial reports. The data is scattered in different offices, except cash and bank books which are under the control of the owner. This state of the art posed the question whether the accounting system maintained by these firms is a direct result of the declining situation, or whether it is responsible for the collapse and decline of the small firms in question.

The small firm at start-up stage tends to keep historical records, based on the registration of transactions with the cash and bank books under the control of the owner or a member of his family. The pilot study shows the 'relative' level of sophistication maintained by the small, growing firm. This could be explained by stage of development, financing and growth and size needs. Regarding the accounts personnel, the research case studies revealed that most of the bookkeepers of small firms at inception are part-timers, and, in most cases, employees in governmental departments. In the growing firm, the level of adequacy can be seen in the level of accountants and their status, which is relatively higher. The pilot study shows the banks' influence on the financial control practice of the financed firms as well as the volume of finance needed by the small firm. This observation provides an evidence of interaction between financing and financial control.

With respect to planning, the research case studies provide support to the literature, which alleges that there is no planning in small firms and the basic tendency of small businesses is to shy away from planning. The pilot study shows that there is no formal planning in small businesses, but this does not mean that there is no systematic thinking practice in small business, based on the grounds that everybody plans, but the difference is in how he plans formally or informally.

From this review, we may conclude that the financial control system maintained by the small firm in the Sudan is either inefficient or misleading, and in both cases does not reflect the true picture of the business. A principal inference can be drawn from this pilot study that the small, growing firm tends to maintain better accounting systems, as compared to small firms at inception. The crudeness and rudimentary nature of the financial control system is a distinctive feature of the declining small firm.

3.2.5 Findings from Analysis of Case Studies:

The detailed analysis of the research case studies shows that the financing characteristics and profile of small firms at inception stage of development tend to be similar in some instances, despite the difference in ownership, origin and impact of the socio-economic and monetary environments. The cases show that small firms at inception stage of development tend to resort to owners' and family resources as a main source of finance, whereas small growing firms relatively received a credit accommodation and access to the short-term institutional finance and trade credit.

The main finding that can be derived from in-depth analysis of the cases, is that small firms in the Sudan experience a persistent problem in raising institutional finance for start-up capital, working capital and expansion and development needs. These difficulties can be explained through the lending regulations and securities required by banks in providing funds, which are unlikely to be satisfied by small clients, and the cost of finance, as well as non-availability of institutional long-term debt.

This study based on observation also shows that there are other limitations apart from the bottleneck in lending created by banks, expressed into lack of governmental financial policy for small scale industry sector and lack of small firm conceptualisation in the Sudan. This institutional gap, among other factors, is responsible for small firms finance gap in the Sudan.

On entrepreneurial level, the pilot study had identified the existence of entrepreneurial deficiency and gap in the Sudan. The research case studies show the influence of entrepreneur behaviour and attitude on the financial structure of the firms as well as management and financial control practice.

The research case studies provide conclusive evidence that there is an interaction between financing and financial control. This interaction is determined by volume and type of finance as well as the financing instrument used. The pilot study provides the hardly surprising result that the financial control systems employed by small firms are crude and rudimentary, built round the ability of the entrepreneurs. The system usually develops gradually, with growth. The inadequacy of the system is a distinct feature of the declining firm.

On family, the main finding, is that the role of family in financing business operations correlates inversely with growth, whereas its degree of involvement in management correlates positively with growth.

The research case studies provide an empirical justification for the development of an integrated policy, based on financing, entrepreneur development, institutional improvement, management and a furnishing of supportive environment to promote and develop small business sector. This itself stands as an empirical examination of the conceptual framework built round the contingency theory, looking for six elements as corner-stone factors for the development of the small firms in the Sudan.

3.3 OPERATIONAL FRAMEWORK:

3.3.1 System Approach:

A major goal of any academic pursuit is the development of an overall theory which can serve as a conceptual framework for understanding, research and application (Dubin, 1969), and every study must recognise the contingent nature of organisational variables. The conceptual and analytical framework stands as a basis for the investigation and examination of the phenomena under review. The choice of the framework should be based on the main criteria of relevance to the investigation and it should enable the researcher to examine and to explain the influence of other related variables. The system framework based on the premise that there is an interaction between a number of variables, provides a method for investigating and for formulating explanations for the relationship between the relevant variables (Warmington, Liption and Gribbon, 1977).

Luthons and Stewart (1977) stated that : "The system approach has emerged as an important conceptual framework which attempts to integrate and redirect some divergent theoretical management constructs." Dublin (1969) rightly commented that the system and contingency approach based on the premises of variables interaction provides a pragmatic basis for analysing and interpreting the existing body of management knowledge and empirical research, thereby facilitating understanding, prediction and control of the phenomena in question. Thus, contingency theory and system approach is a strategy or metatheory, suggesting ways in which phenomena ought to be conceptualised and to be explained (Bird and Schoonhoven, 1981).

The system and contingency approach was criticised by a number of scholars (Bird and Schoonhoven, 1981; Carter, 1975; Namboodin, Blalock, 1975). Blalock argued that : "when contingency theorists assert that there is a relationship between two variables which predicts a third variable, they are stating that an interaction exists between the first two variables". Bird (1981) added that the problem with contigency approach is that lack of clarity by contingency theorists blurs the fact that an empirical interaction is being predicted. Luthons and Stewart (1977) provide an answer to the criticism levied by some scholars stating that :

> "In spite of the significant practical problems to be resolved, GCT offers the theorist, researcher and practitioner a real and potential framework for integrating existing contingency approaches and for orchestrating future management research and development."

It is within the systems approach, that the operational framework for this study has been developed in an attempt to explain, control and predict the phenomena of small enterprise development. The selection of the system approach is based on the grounds that it is the most suitable framework to address the issue of small business based on various variables.

3.2.2 Review of Small Enterprise Development Models:

The analytical framework which we seek to establish should enable us to explain and predict the research phenomena, focusing on the financial behaviour and managerial profile of small firms at various stages of development. To arrive at a suitable framework based on theoretical and empirical foundation, certain models on small enterprise development will be questioned critically in the following discussion.

Neck (1977) developed a conceptual approach providing a diagnostic framework in which to analyse problems facing small enterprises. The Neckian model was based on the identification of the 'host' taken to be the recipient human elements; the 'agent', and the environment. Neck suggests that results or effects are developed by the interaction of these three components. Besong (1978) argued that "the Neckian study is, however, limited in its analysis of the environment, hosts and agents factors. His conclusions do not show the synergistic relationship and effects of any particular combination of factors".

Patel (1977) developed a model for small enterprise development as "being a function of entrepreneurial traits, project ideas and opportunities, managerial skills, projects planning and reports, finance and economic, infrastructure and social political environment". This model could be depicted in the following form :

ED = f (ET, PIO, Mg.SK; PPR, F, ENV)

The Patel model, based on seven variables, is not in a form which provides quantification or a trade-off to be made for the subject variables (Ray and Hutchinson, 1983). The Patel model identifies the main factors determining the success of small enterprise. The uniqueness of this model as compared with the Neck model, the finance is explicitly considered as one of the variables of small enterprise development.

Within the context and the boundaries of the traditional view of the financial life-cycle theory of the firm, Weston and Brigham (1978) developed a small enterprise development model. The subject model is based on the premises that small enterprise is a function of entrepreneur, environment, financing and financial control. Thus, the traditional view add the dimension of the financial control as one of the main facets of small enterprise development. Churchill and Lewis developed a model based on the managerial emphasis. Within the context of models developed by Neck (Neckian model), Patel and Weston and Brigham; Ray and Hutchinson, Knight and Osaze developed models for small enterprise development in the U.K., Canada and Nigeria respectively. Osaze (1981) add a family as a social phenomena in developing economies.

There is a similarity between the development models, in the sense that most of their variables are explicitly and implicitly common. The similarity stems from the fact that most of these models are based on the Neckian model, which is the pioneer in this area.

Table 3.2

Summary of variables found to be significant in Small Enterprise Development

Model: / Variables:	1 Neck	2 Patel	3 Westn & Brghm	4 Churchill & Lewis	5 Ray & Hutch.	6 Osaze
1. Host - entrepreneur	X	X	X		X	X
2. Agent - Fin. Inst.	X		X		X	X
3. Environment	X	X	X		X	X
4. Managerial skills	X	X	X	X	X	X
5. Project planning		X				
6. Finance		X	X		X	X
7. Economic Infrast.		X				
8. Opportunities/ project ideas		X				
9. Financial control			X	X	X	X
10. Organisation st/mgt.				X		
11. Family						X
12. Owners involvement				X		
13. Strategic goals				X		

3.3.3 The Research Analytical Model :

Having reviewed the various models developed by various contributors and scholars in developed and developing countries (Table 3.2), the research analytical framework has been developed. A conceptual framework based on system approach was developed prior to the conduction of the pilot study as a framework to examine empirically the research question. Otley (1980) states that :

> "there are very few empirical studies in the accounting area that have explicitly adopted a contingency approach prior to collecting data."

The interpretation of Otley's statement adds a dimension of uniqueness and strength to the research methodology and scholarly approaches adopted to investigate the small business phenomena.

To state specifically what we intend to study and what is the research question, the state of knowledge was reviewed and examined (Chapters 1 & 2), taking into consideration the Sudan experience, revealed by the selected research case studies. The need for a basic model is governed by the intention to adopt or develop a model that will help us to relate and compare the variety of factors arising from the case studies.

The empirical examination of the conceptual framework made qualification in the variables considered by scholars in terms of inter-relationship and measurement. The empirical formulation of the analytical framework help resolving the problems and difficulties highlighted by various scholars in providing a framework for analysing small enterprise development. Ray and Hutchinson (1983) rightly argued that :

> "It is extremely difficult to provide a framework for analysing small enterprise development, because of the large number of variables involved."

The study analytical model is intended to be action-orientated, built round a system approach with an emphasis on financing and financial control as main facets of small enterprise development in the Sudan. The influence of other variables identified in this study were considered as well. The subject framework was designed to capitalise the analysis of interaction and cause and effects relationship between the components.

Figure 3.3 presents the analytical framework and demonstrates the inter-relationship between the identified variables as well as the scope of the research effort. The analytical framework variables will be defined, operationalised and measured in Chapter 4 on 'Research Methodology'. The subsequent chapters on survey analysis (5 - 10) will discuss more fully the six components within the structure of the analytical framework.

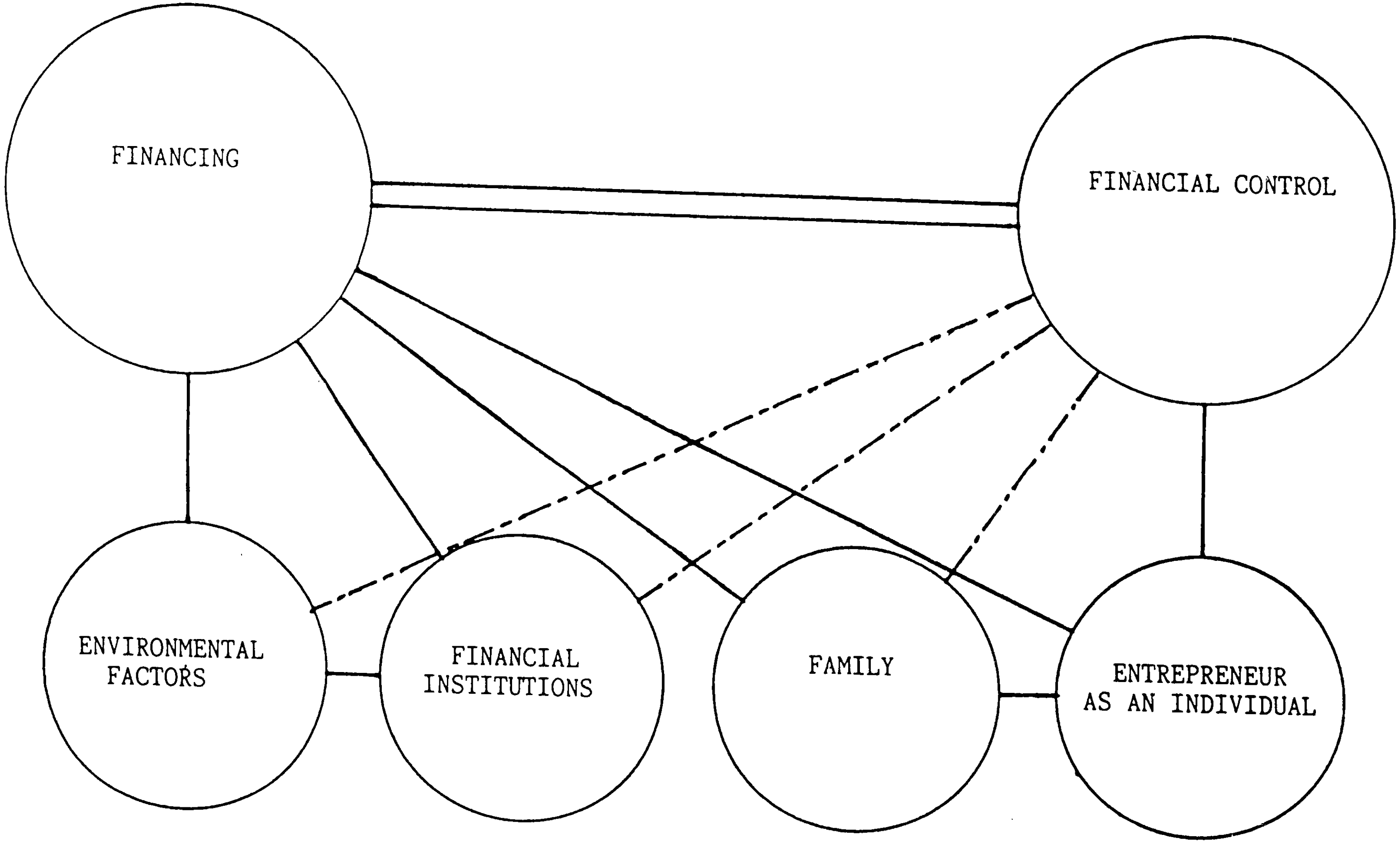
3.4 RESEARCH HYPOTHESES:

Based on in-depth analysis of the research case studies, built round the basic analytical model, a testable research hypotheses were accordingly developed. By virtue of their origin as an interaction between the body of knowledge and the empirical experience (see Figure 3.2), the research hypotheses stood as a link between theory and facts. Thus, the research hypotheses were set as a combination between theory and empirical experience, derived logically from the Sudan experience.

The following research hypotheses attempted to explain the state of the art of the analytical framework variables as well as the inter-relationship between them.

1. Small firms at inception stage of development in the Sudan resort to owners and family resources, whereas at the growing stage, they rely on trade credit and short-term finance in financing business operations.

FIGURE 3.3 BASIC ANALYTICAL FRAMEWORK



2.a. The small firm at the inception stage of development, experiences under-capitalisation and tends to display liquidity, low profitability and high equity to debt.

2.b. The small, growing firm in the Sudan, tends to maintain low liquidity, profitability and low equity to debt.

3. Small firms at various stages of development (inception and growing) in the Sudan experience persistent problems in raising funds. This prima facie a finance gap.

4. The small business financing gap is attributable to :
   a) institutional gap, and
   b) information and communication gap.

5.a. The control of cash is given a high priority at various stages of development (inception and growing), whereas debtor and creditor control are given priority at the growing stage of development; and are the sole responsibility of the entrepreneur.

5.b. The adequacy/inadequacy of the financial control systems of small firms varies from one stage of development to another. That variation is due to :
   i) Entrepreneur attitude towards accounting
   ii) The involvement of banks, and
   iii) The domination of family.

Figure 3.4 presents the structure of the research hypotheses, in relation to state of the art - what? - and cause and effect relationship.

Figure 3.5, on the other hand, explains how the research hypotheses fit into the analytical framework and the structure of the chapters on survey results.

The next chapter, (Chapter 4) in this scholarly process will provide a theoretical foundation for the measurement and operationalisation of these hypotheses as well as the definition and explanation of the terminology involved.

FIGURE 3.4 RESEARCH HYPOTHESES STRUCTURE "What and Why"

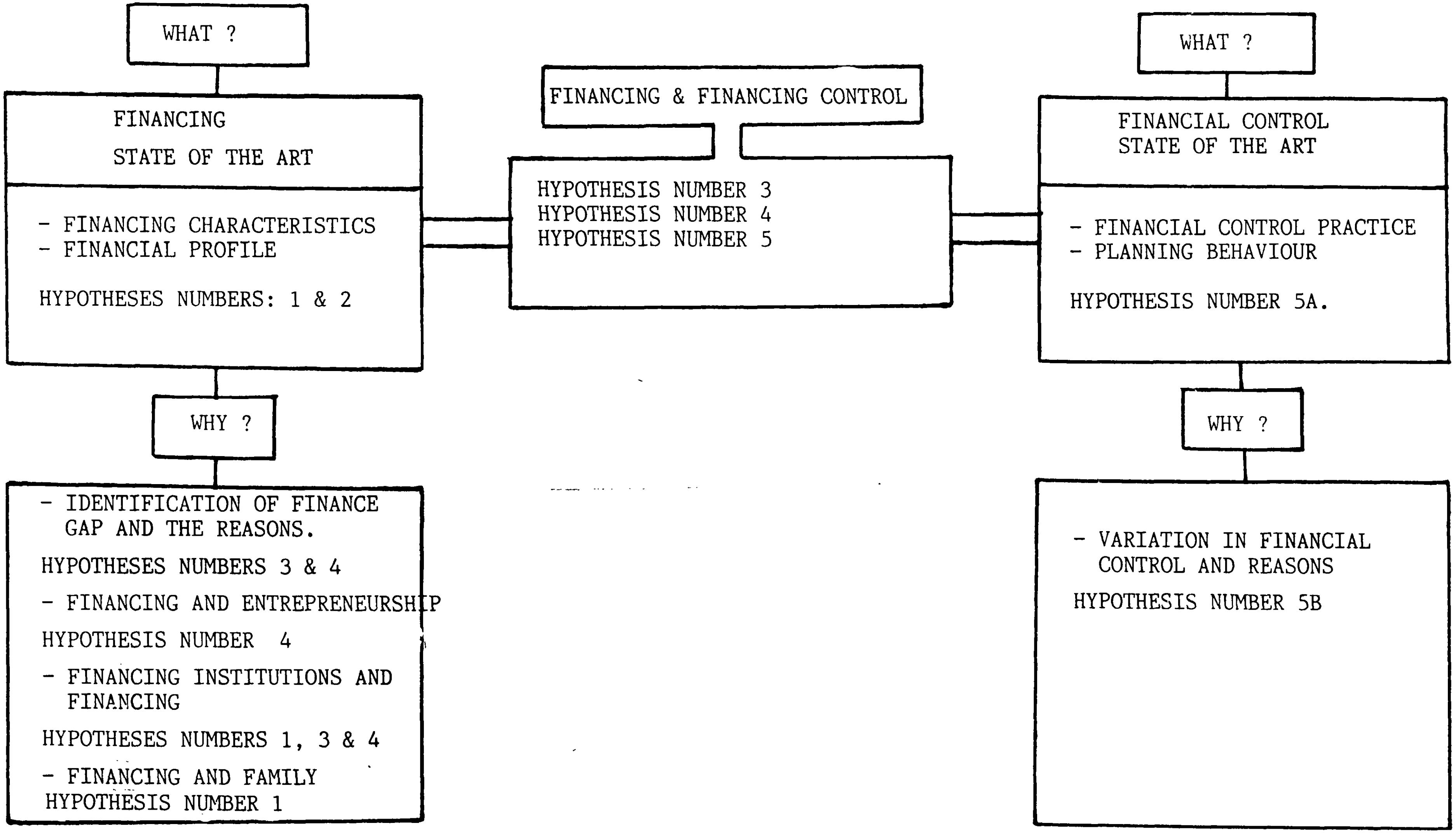
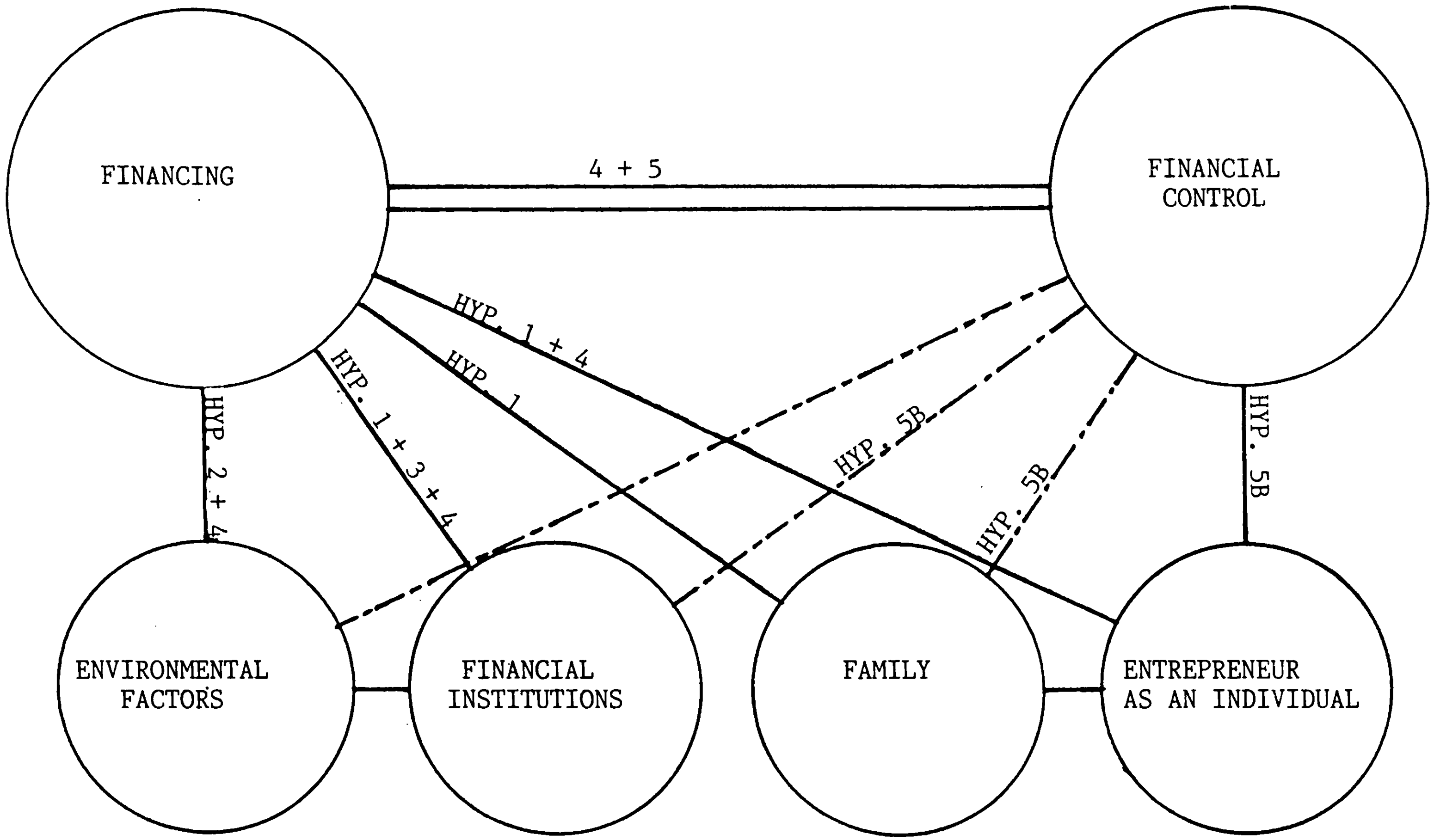


FIGURE 3.5 RESEARCH HYPOTHESES AND THE ANALYTICAL FRAMEWORK



CHAPTER FOUR

RESEARCH METHODOLOGY

Having stated the research topic and developed the research analytical framework and hypotheses, the next logical step is to explain how we intend to handle the issue and investigate the problem.

The purpose of this chapter is to operationalise the key concepts and to define specific variables that have been considered in this study. Thus, the chapter outlines the research methodology adopted in this study. In operationalising the analytical framework variables, the previous research has been reviewed critically so as to relate the research work to the body of knowledge (Child, 1972). Research design, research sampling, as well as method of data collection and associated problems, are discussed thoroughly in this chapter.

Most researchers assert that the quality of research depends not only on the adequacy of the research design, but also on the fruitfulness of the measurement procedures employed. Blalack and Blalack (1968) added that:

> "Basic to any meaningful measurements are an adequate formulation of the research question and clear definition of the concepts involved".

Lundberg (1939) contended that measurement is not a way of defining things but is a process which is carried out only after the 'thing' to be measured has been defined. Eddington (1933) and Bridgman (1938) pointed out that the proper definition of a concept is not in terms of properties possessed, but rather in terms of actual operations. In distinguishing between a logical and an empirical approach to the problem of validity of measurement, Johoda, Deutsch, and Cook (1959) pointed out that:

> "From the logical and theoretical standpoint, a measurement is said to be valid to the degree that it measures what it is supposed to measure. But how do we decide whether or not it is really measuring what it is intended to measure ?".

Robyn (1972) pointed out and explained the essence of measurement, arguing that:

> "Such specification of what is to be measured - that is, to the establishment of measurement procedures ...... The measurement procedures constitute the working definitions of the concepts being used".

4.1 Financing Characteristics and Financial Profile

The financing characteristics will include the types of finance (Islamic and non-Islamic; internal and external; and short and long-term finance). It will also include the methods of raising finance, the criteria used by banks in providing funds to clients, and the attitude of small firm owners/managers to different types of finance.

4.1.1 Financing Instruments and Types of Finance:

The Islamic financing instruments which were introduced in the money market in the Sudan, since the establishment of the Fiasal Islamic Bank (1978) are:-

1. Mudaraba, 2. Musharaka and 3. Murabaha. Awad(1984) state that:

> "These techniques were known in classic books on Islamic jurisprudence as Musharaka (co-financing), Murabaha (open-ended jobbing), and Mudaraba (full-fledged trust".

Mudaraba is defined by the Muslim Jurists, Scholars and practitioners "Beit Al Mal Islami" as "the buying of shares in a specific project or business, on the basis of a loan to a partner who is a working partner. The shares could be a part of the business or could be the entire capital". In his paper "Islamic Techniques of Finance" Awad (1984) explains the philosophy and essence of Mudaraba, by contending that the bank may go into partnership with a person whose only assets is his good name or business ability. Under Mudaraba the bank will provide all the finance required for the project which such a person will manage on its behalf, for an agreed share of the profit. The initial field work shows the complete absence of this type of finance and it is restricted only to trading.

Musharaka is defined by scholars and practitioners as a partnership in any activity of business. Sidigi (1980) defined Musharaka as:

> "... a participating capital agreement, based on profit sharing".

Musharaka finance shares the characteristics of equity finance, in the sense that the financier provides funds in return for a specified share of the company profit, and debt finance, in the sense that it is an external source of finance and self-liquidating transactions.

For the purpose of this research, Musharaka has been treated as debt finance. Musharaka could be classified as short and long-term finance, in the sense that it could be liquidated in the current accounting period, or in the long-term, depending on the project financed, and the agreement between the bank and its client.

The most common form of financing projects, working capital and trading transactions used by Islamic banks, and all banks under the Islamic banking system in the Sudan, is Murabaha. Murabaha has been defined by Muslim Jurists and Scholars as "resale with specified gain or profit". Murabaha is very short-term finance, being a self-liquidating transation within the accounting period "usually within six months as a maximum".

Bank overdrafts as a short-term finance were defined by Bates and Hally (1982) as:-

> "Bank overdrafts are intended to be self-liquidating loans within the natural cycle of the firm's activity (usually one year); even if the period is longer, such loans are still short-term because the bank could withdraw the loan facility at short-notice if it wished to do so.

Long-term finance could be provided by the shareholders or owners, or by outsiders. The long-term finance provided by the owners could be further sub-divided into two sub-categories:

a. Share Capital

b. Retained profit

Share capital and retained profit represent the difference between the total assets of the business and what is owed to people outside the business. Retained profit, as a source of long-term finance, was defined by J. Bates (1965) as:

> "There is a reasonably clear theoretical economic criterion of retained profit: any income transferred to resources over and above what is necessary for the maintenance intact of the net worth or earning capacity of an enterprise, is retained profit".

The treatment of owners' loans and its categorisation as a source of finance in small firms, appears to be a controversial issue. M. Tamari (1978) agrees that:

> "The use of owners' loans as a form of equity has another distorting effect on the Company's financial performance. Some or all of these loans earn interest which is in effect a return on capital, just as dividends are; yet such interest payments are reported as a cost to the firm".

Tamari (1978) argues further that, if interest is paid on these loans and deducted in the profit-and-loss account from the profit earned by the firm, then the owners' loans are not part of equity. However, if these owners' loans do not all bear interest, then these loans have to be added to the equity. In this research, Tamari's (1978) measurement of owners' loans is used throughout.

4.1.2 Pattern of Financing

In addressing the issue of the financing pattern of small and large enterprises in the U.K.; Bates (1965) tackled the issue from two angles - (1) Sources of finance classified into internal, external, short and long-term and, (2) The allocation of funds operationalised into budgeting. This approach was used by Bates and Hally, in their recent publications (1982). In investigating the major source of funds of small firms, Bird and Juttner (1975) made an attempt to provide some empirical evidence pertaining to the financing of small business in Australia. The financial behaviour of small firms was operationalised and measured by the authors into:

- The value of assets
- The distribution of profits
- The initial finance and its source
- The source of equity and debt finance and their classifications and
- Methods of raising finance.

Groves and Harrison (1974) lend support to Bates's (1965) and Bird and Juttner, stating that:

> "Analysis of the sources of funds utilised by the Companies was an important aspect of the study of the financial profile".

Weston and Brigham (1978) operationalised capitalisation as long-term financing.

> "Financial structure is measured by the ratio of common shareholder equity to total capitalisation, represent long term financing".

Under capitalisation was defined by Mao (1978) as insufficient initial capital. This definition was used by Bolton (1971); Tamari, (1978) and Harris (1977). For the purpose of this research, insufficient and week seed capital will be used as a working definition of under-capitalisation.

To establish the state of the art on financing and financial facilities available to small business at various stages of development the financing characteristics were measured into sources of finance classified into bank borrowing, trade credit, and long-term finance, whether internal or external. The questions 23-29 set out to examine the sources of finance at start-up stage. Questions 30-36 provide data on bank borrowing as experienced by the demand-side; 31-39 on trade credit, and questions 40-46 on long-term finance. The objective of this part of the inverview guideline (23-46) is to provide data on small business financing, as well as large firms from the demand-side, in an attempt to test empirically the first research hypothesis. This data was supported by the financial data collected from the research sample. Thus, in this part of the study, large private enterprises were taken as a control group, following the approach of Bates (1965) in Britain and Walker and Petty (1978) in the U.S. The main objective of this comparison is to examine to what extent small firms were discriminated against. Bates (1965) added that:-

> "The difference between small and big businesses has always interested economists and others, and the columns of the financial press are seldom completely free from remarks about the place of the small enterprise in society .....".

Research work based solely on either the demand or supply side point of view was criticised by Scholars (Knight, 1984) on the ground that it was based on data collected from one side only, which might affect the validity of the resultant conclusions. To cater for this point, this study will address the issue of small business financing from both the demand and supply-side. This approach increases the scope of the research, but provides a complete picture of the phenomena and furnishes a platform for strong and well-documented inference.

In considering the financial position of the small-firm sector in Britain, the Bolton Committee (1971) paid much attention to the working of the banking system, and in particular to the effect of the policies of the monetary authorities on the operations of the clearing banks, who were the main providers of finance to small firms. Harris (1977) attempted to examine the adequacy of Australian financial bodies in meeting the needs of small business. Regarding the measurement of adequacy, Harris states that:-

> "We could expect small businessmen, sociologists, politicians, economists and financiers to have differing perceptions of the adequacy of small business finance, all more or less valid given their differing interests. Probably no one view could offer the whole picture".

The efficiency of the financial markets was measured by Harris, as to their contribution in providing initial finance, growing capital for new and growing firms and long-term finance. The efficiency of the capital market in relation to small business finance, was measured in the U.K. (MacMillian, 1931) U.S. (Gravin, 1970; Reserve Board) and other developed and developing countries, by long-term debt and equity finance. In 1953 study by the Board of Governors of the Federal Reserve System (U.S.), the financing problem of small firms was measured by the period of credit contraction, the availability of Credit to small business, and the financial institutions' policies towards the small businesses. Knight (1984) studied the role of Canadian charaçtered banks in serving the financing requirements of small business. The study involved an investigation of the loan application files in the charactered banks, and a questionnaire survey of small business across Canada. The adequacy of the bank facilities was measured by the writer on five dimensions:-

1. Loan rejection frequency

2. Amount of Loan granted versus requested.

3. Interest Rate

4. Collateral requirements, and

5. Term of the loan.

Henderson (1966) measured the banks' behaviour towards small firms by comparing the loans advanced to quoted public companies and other companies.

In examining the financial institutions' behaviour towards small business financing in the Sudan, data was collected from ten financial institutions, classified into public commercial, private foreign and Joint venture, public development banks, and private and joint venture development agencies. The bank policy, a criterion of financing, financing behaviour, financial ability and conditions of financing were used in this study as a surrogate to measure the banking policy and the attitude towards small business financing. (See Appendix 1.B on Interview Guideline on banks Questions 1-24). To collect data, bank managers , investment section and credit department personnel were interviewed by the researcher. The secondary data of the subject banks, as also Central Bank data, and the Ministry of Finance data, were used both to establish the financial ability of banks (See Chapter 8).

4.1.3 Measurement of Finance Gap:

In the U.K. the debate concerning the finance gap has a history going back to the McMillian Report (1931), which concluded that there was a shortage in the flow of funds to small business. The MacMillian gap was defined by reference to unavailability of long-term loans. This definition was adopted by the Radcliffe Committee (1959), the Bolton Committee (1971); Wilson (1979); Stoll and Currely (1980). Grafer (1968) stated that:

> "There may be various types of financing gap e.g. short-term, long-term and mortgage. However the financing gap that has been most prevalent for small business is an unsecured long-term debt and equity capital gap".

Gravin (1970) argues that:

> "Among the reasons for wide differences of opinion as to a small business capital gap is that a rigorous definition of the gap virtually defies demonstration of its existence or measurement of its dimensions".

Ray and Hutchinson (1983) added that:-

> "A finance gap can exist in two ways: First of all, a gap would exist if the marginal return on the investments available to small business exceeds their marginal cost of capital, due to discontinuities in the provision of finance, such that funds were not available for otherwise profitable investments. Secondly, a gap would exist if the cost of money to small concerns .... exceeded the cost of money to large concerns".

The cost of financing disparity was used by many writers and scholars in the field of small business (Stoll and Corely, 1970; Wilson, 1979; Bolton, 1971; Brigham and Smith (1970) as a surrogate for the measurement of the small business financing gap.

For the purpose of this research, the finance gap was measured in four dimensions:

1. Institutional long-term debt

2. Cost of borrowing

3. Capital shortage (short and long-term funds)

4. Security and collateral requirements.

This operationalisation was based on the nature and scope of the research effort addressing the issue of the financing experience of small firms at various stages of development (inception and growing) and large enterprises in a financial market, structured round the Islamic financing mechanism.

The identification of the finance gap in this study, was not based solely on the interpretation of financial data, but rather on the combination of the opinions of both demand and supply-side, as well as the financial data of small and large firms. This triangulation approach adds strength to the generalisations. This measurement was set out to test empirically the hypotheses derived from the pilot study (Hypotheses 3 and 4) explaining the finance gap and the reasons for its existence.

In addressing the issue of small firms in the U.K., the Radcliffe Committee (1959) proposed a modification in the existing financial institutions. The Bolton Report (1971) concluded that there was no gap in terms of information about sources of finance. The Wilson Committee (1979) confirmed the alleged existence of a communication gap between small business and financial institutions. Based on the operationalisation and measurement of MacMillian (1931); Radcliffe, (1959); Bolton, 1971; the institutional gap will be measured by examining the financial policy of the Government, which was reflected in the Central Bank's credit policy, and the policies of the Commercial and development financial agencies. The existence or absence of a specialised body and consequently policies and programmes on small business, was used in this study as a surrogate to measure the institutional gap (Questions 1-5).

The information gap was defined and operationalised by the Bolton Committee as:

> "The lack of knowledge and understanding within the small firm sector of the financial services available and of the costs and conditions attached to them".

For the purpose of this research the communication and information gap was measured by examining the communications channels maintained by the banks for providing information and advice to clients, and their connection with the criterion used by banks in providing funds. So as to present holistic picture, the process on the one hand of raising funds as perceived by small firms, examined in conjunction with the process on the other hand of channelling funds to the client from the supply-side. Questions 48-73 deal with the demand-side and questions 19-23 cover the supply side (See Appendix 1).

4.2 Financial Control:

Control is a term with more shades of meanings than almost any other in the English Language. (Ottley, 1980). Hofstede (1968), in defining control placed emphasis on the idea of regulation and the monitoring of activities. Webster's dictionary defines control as:

> "An application of policies and procedures for directing, regulating and co-ordinating production, administration and other business activities in a way to achieve the objective of the enterprise."

In the extensive literature on management planning and control systems, control has been defined as the process of ensuring that the organisation is adapted to its environment and is pursuing courses of actions that will enable it to achieve its objectives. Anthony and Dearden (1977) define management control as:

> "The process by which managers assure that resources are obtained and used efficiently and effectively in the accomplishment of the organisational goals".

Most writer in the field of management control agree that a management control system consists of two elements (Anthony and Dearden, 1977; Ansari, 1977; Lowi, 1971; Ottley, 1980). The first element is an information network which prescribes the rules of the measurement, collection and processing as well as transmission of information. This network was regarded by Ansari (1977) as the structure of the control system. The other element highlighted by scholars is the set of social relationships through which such systems achieve their goals. It may be regarded as the control process. (Ansari, 1977).

Anthony and Dearden's (1977) definition of management control will be used here as a working definition. This definition has been selected on the ground that it was based on the distinction between management control, operational control and strategic planning, which satisfies the theme ofthe research, focusing on financial control, planning behaviour and the management style of the small firm.

Financial control was defined by Anthony and Dearden (1977) as:

> "that part of management control systems that collects, reports and uses accounting numbers".

Ray and Hutchinson (1983) defined financial control as:

> "The process by which management assures that economic resources are being used efficiently and effectively in accomplishing the organisational goals".

Osaze (1981) defined financial control as the formal written communication network of financial information.

In this part of the study, we shall attempt to examine the way the small firm is organised to carry out its functions, how it is managed, and the relationship between the financial profile and the financial control. The study intends to examine the degree of adequacy of the financial control system (Hypothesis 5). To explain and predict the phenomena, the state of development of the financial control system of the small firm will be examined in connection with the influence of other identified variables.

One of the empirical problems with regard to research into financial control is the lack of quantification in this area and the nonavailability of generally accepted means of describing, evaluating and classifying the financial control. To cater for this problem, Ray and Hutchinson developed an investigative model, based on the concept of the contingency theory.

> "The financial control systems are variables which are contingent or dependent on other factors, and are tailored to the particular goals and the particular strategies of the organisation".

The Bath Investigative framework, consists of six variables:-

> "In the pursuit of objectives; working through an organisation structure; with a management style; a structure of internal accounting; provides historical and forecasted finanacial information; which monitors key variables".

The key financial variables such as historical and forecast financial information, financial planning and budgetary control were used by various writers as a surrogate to measure the state of the art of the financial control profile. In addressing the failure syndrome of small firms in Canada, McKinlay (1979) operationalised management shortcomings in the absence of planning and control. Such absence was measured by the writer by the type of information produced in the Company e.g. balance sheet, cash flow statement, forecasting and reporting of actual results, credit control. Thus, the measurement of the state of development of the financial control used and adopted by McKinlay was based on the type and nature of the information produced in the Company. Said and Hughey (1979) adopted this approach in examining the financial control practice of small firms in the U.S. They add the quality and status of accountants in the organisation as surrogates. In their research work "The Failure Syndrome" Larson and Clute used type and frequency as well as the quality of book-keepers as a surrogate for the measurement of the financial control practice of the small firm. They identified financial shortcomings as one of the reasons behind the failure of small business. Accounting practice and its degree of adequacy was divided by the authors (Larson and Clute) into Inventory control, non-existent or degree of completion of the accounting records, cash-flow analysis, cash control, working capital analysis, budgeting system and the quality of the accountants. This approach based on type and frequency of formal financial information produced was used by Ray, Piper and Hutchinson (1975), Bolton (1971; Osaze (1981).

This approach was built around the judgement that what is produced is also used in practice. This assumption represents the weaknesses of this methodology. Osaze (1981) stated that:-

> "The weakness of this methodology ......, is that it is not able to determine how the financial control information is used in practice by these firms for controlling their operations".

The second weakness of this methodology is that it was based on type and frequency of the formal information, whereas the owners/managers of small firms manage their business with varying degrees of formal and informal information system.

Based on the review of the relevant literature, the state of development of the financial control system has been measured in this study by the nature and type of information produced in the company, as well as its frequency. The questions (106-136) were designed so as to provide information on the state of the art of the financial control maintained by small firms. The awareness of the sample firms with regard to the importance of the financial control was measured by what may be regarded as the key financial variables. (See interview Guideline).

To explain, predict and control the phenomena of the financial control profile of the small firm, the influence of the financial institutions as perceived by entrepreneurs will be examined. The degree of banks' involvement has been measured by type and frequency of information produced and its final destination, in connection with the financing instruments. The quality of book-keeper and the influence of the financier will be used as a surrogate as well. This measurement will will help explain the interaction between the financing and financial control profile. Question 95 in conjunction with the questions on level of documentation (Questions 48, 59-62) were designed to provide data on this issue. The data from the supply-side will be used to examine crossly the data collected from the demand-side - Questions 19-28.

The initial field work of the study (hypothesis 5-B) indicates that the financial control profile of small firms is influenced by the previous experience of the entrepreneur and his attitude towards accounting. Boswell (1972) argued that:

> "The attitude to control has often among other things, led to decline of the small firm".

The previous experience of the entrepreneur was measured in two ways. Firstly, the number of years the present owner/manager has worked with this firm. Secondly, the total number of years of managerial experience the manager had, in addition to his/her experience with this type of firm (Robinson, 1980).

In measuring the attitude of small businessmen towards accounting, Said and Hughey (1977) examined the status of accountants and their role in the decision-making process, as a surrogate for measuring their attitude. The status of accountants was operationalised into the position of the accountant in the Company (full or part-time, family of non-family member), requirement and the quality of accountants. This approach was supported by McKinlay (1979). This methodology was based on the evaluation of the researcher of the selected dimensions and the degree of objectivity achieved in the measurement. The Sathe (1982) approach was based on opinions and views by asking the entrepreneurs and/or chief executives what they think is the desired role for the controller in the major decision areas, and their views on the importance of accounting in maintaining their organisations. The weakness of this approach is its reliance on the opinions, views and ideas of the management, as well as, expectations, which are highly subjective themselves.

The review of the literature revealed that there are two approaches for the measurement of attitude. Based on the combination of these two schools of thought, the attitude of the entrepreneurs towards accounting was measured in this study. The questions 97-101 were designed to collect data on the status of the accountants, and questions 103-105 structured to examine the opinions of the entrepreneurs.

The initial field work revealed that the financial control profile and its state of development is influenced by the degree of family involvement and domination (Hypothesis 5-B). Allen and Parison (1982) stated that:

> "Controlling families may be willing to sacrifice some degree of corporate profitability in order to retain some degree of direct family control over the corporation".

In addressing the issue of organisation development in the family business, Bary (1984) measured the family influence on management in an organisational context, arguing that:

> "Unlike more formal concerns in the family business, authority and status tended to come from membership of the family rather than from having a post in the organisation".

Farmer and Rickman (1964) contended that the sociological and cultural environment have a considerable impact on the ways in which industrial enterprises and their personnel carry out their functions. Rikabi (1984) stated that:

> "Managers in the Sudan, like most of the people in that country, are the products of highly-structured, traditional society, where all authority is derived from the family (or tribal) position and submission to authority is seen as the way to avoid the anxieties of living".

The degree of family involvement in the business has been operationalised quantitatively by the number of people in the organisation belonging to the family of the founder or the owners of the business. The qualitative measurement of the family involvement has been operationalised by tracing the origin of the business and the influence of the family on the management measured in the organisational context. The organisational context has been divided into examination of the organisation structure of the firm, level of manning by family members, the essence of delegation and its influence on the degree of formality and informality of thefinancial control practice. Sofer (1962) concluded from his research that:

> "The problem of recruiting adequate middle management was inseperable from the practice of reserving Senior appointments and Directorship for family members".

The initial field work revealed that the control of cash and the major items of profit and loss and balance sheet were under the control of the owner, or members of his family (Hypothesis 5-A). These factors will be used in this study as surrogates to measure the degree of family influence on the financial control profile.

The qualitative data has been accumulated by conducting personal interviews with the founders, owners and management of small business on dimensions and surrogates identified by the researcher.

The initial field work revealed that the financial control system of small firms is influenced by the style of managemnt adopted, lending support to Khandwalla, 1977; Colson, 1980; Ray, Piper and Hutchinson, 1975 and B. Osaze, 1981. It was established in the academic literature that the style of management of small businessmen is authoritative and paternal. Ray and Hutchinson (1983) lend support to the normative statement of Bolton (1971); Lowin (1968), by adding that:

> "We can infer that no evidence was produced for the existence of consultative and participative styles which are often noted in large companies. By deduction, the authoritative and paternal style can be inferred to predominant, and in this regard the small rapid growth firms are not different since these two personal styles predominate up to flotation and even for years after flotation".

Management style consists of the set of beliefs and standard about management, under which the organisation's key decision-makers operate (Colson, 1980). For the purpose of this study, the management style of small businessmen will be considered as falling within both the participative and authoritative school of thought; therefore the styles to be discussed are the authoritarian and participative dimensions.

The authoritarian style was operationalised by Sales (1977), by the relatively high degree of power wielded by the owner/manager over the subordinates. As contrasted with participative style, both power, and all decision-making functions are absolutely concentrated in the person of the authoritarian.

To examine the style of management, delegation will be operationalised into the assignment of responsibility and delegation of authority on the main functions and activity of the company (raising of finance, allocations of reserves, cash control etc). The entrepreneurs will be asked about their views, and ideas on the management style (Questions 141-143). To accumulate cross-checked data, the subordinates will be asked to what extent the owners delegated to them, on what issues, and at what level, as well as degree, do they participate in the decision-making process.

Planning Behaviour

Golde (1972) defined planning as:

> "The process of systematically thinking about the future of an enterprise as an integrated whole".

Schollhammer and Kuriloff, focussing specifically on small business, offer a definition of strategic planning in small business:

> "The major purpose of (small) business planning is to discover opportunities that would enhance the firm's success and to identify threats that cause its failure. To accomplish this purpose, business planning concentrates on detecting external opportunities and risks, and internal strength and weaknesses".

The writers and contributors in the field of planning of small business (Golde, 1979; Still, 1974; Gilmore, 1972; Robinson and Pearce, 1984) assert that the literature in this area suffers from a "little big business syndrome", and the operationalisation of planning in small business is no exception. Robinson (1980) added that:

> "No empirical studies have been undertaken which attempt to operationalise planning based on specific, critical dimensions of planning, unique to the small firm situations that are being advanced in the literature".

The strategic planning was operationalised by writers as a systematic thinking and formal long-range planning. (Newman, 1951). Gilmore (1971) criticised this approach based on formality and long-range policy stating that:

> "What is needed for small firms is a simple and practical approach that is within the reach of smaller companies".

Gilmore contended that the strategy of large corporations is a matter of record, but many medium-sized and small companies operate internally with a loosely defined strategy. Churchill (1984) extends support to Gilmore (1972) by operationalising planning into short-term budgeting.

Thurston (1983) stated that there are two approaches to planning in small firms. First, the minimal approach to planning based on owners' ideas. Second, the full-blown approach based on steps and budgets. Robinson and Pearce (1983) operationalised formality into:

> "Formality has been operationalised according to the degree to which sophisticated written documentation emanated from the planning effort. Written documentation has been identified as a major dimension of the move towards formal planning in small firm".

The operationalisation of formal planning into written documentation was used by Rice, 1970; Buchele, 1967; Gilmore, 1972; Still, 1974. The informality in planning was operationalised by Golde (1972) into fuzzy and unwritten documentation and the use of word of mouth as a communication median. Robinson and Pearce (1984) lend support to Golde's measurement of informal planning.

In this review, the planning practice and behaviour of small firms in the Sudan will be measured by examining the empirical presence or absence of planning as operationalised by Scholars (Golde, 1972; Rice, 1980). This operationalisation has been used because of its applicability to small firms and the theme of the research effort, which attempts to confirm or disprove the normative statement made by the writers that there is "no planning in the small firm". To explain the formality and informality continum, Robinson and Pearce's operationalisation of formal and informal plan will be used. Questions 109-112 were structured to collect data on budgeting practice and 144-150 on strategic planning practice.

4.3 Entrepreneurial Characteristics

Palmer (1971) states that:

> "The word entrepreneur carries a deluge of definitional and operational ambiguity".

One of the earliest definitions of an entrepreneur is that of Contillon who described the entrepreneur as:

> "a rational decision-maker who assumes the risk and provides management for the firm".

There was a school of thought, Mill, 1948, which attempted to build a demarcation line between entrepreneurs and small business owners. This school of though considered risk as a distinguishing factor. Schumpter (1934) and others have asserted and continue to assert that risk bearing, which is inherent in ownership is a prime factor in entrepreneurial characteristics and functions.

In addressing the issue of the entrepeneur as one of the elements of small enterprise development, an entrepreneur has been defined as an owner and manager of a small enterprise. This working definition has been accommodated within the Schumpterian school of thought, which is followed by present-day writers in the field of entrepreneurship (Timmons, Welsh and White). Moreover, this definition satisfies the definition of Knight (1921) who sees the entrepreneur as the ultimate decision-maker in the enterprise. To address this issue of entrepreneur as an individual, age, motivation, education, previous experience and managerial skills will be taken as surrogates (Questions 9-22).

4.4 Environmental Factors:

The environment was operationalised in small firm research by various scholars into legislation, infrastructure, market, education and training programmes and taxation and investment policy. (Beasley and Wilson, 1984; Meredith, 1985). In defining and operationalising environment in developing countries, Ray and Hutchinson (1983) claimed that the small enterprise development model should lay stress on institutions, infrastructure and educational system.

In attempting to establish whether the Sudan Government devloped explicit policies towards small business and to examine the impact of presence or absence of public policy on small enterprises throughout their stages of development, the study will focus on two main indicators. On academic and empirical justification grounds this study will focus on (a) Governmental financial policy, and (b) institutionalisation. On theoretical grounds, these two public policy indicators have been based on Beasley and Wilson (1984)'s measurement. Empirically, the consideration of these two indicators was then based on the issues and arguments pointed out by the policy makers in the relevant ministries and small businessmen. (Initial Field Work).

4.5 Research Design, Research Entities and Research Sampling

4.5.1 Research Design

In their research work "Research Methods in Social Relations" Sellitz and Deutsch (1966) stated that:-

> "A research design is the arrangement of conditions for collection and analysis of data, in a manner that aims to combine relevance to the research purpose with economy in procedure. It follows that research design will differ depending on the research purpose".

The writers (Sellitz and Deutsch) went further, arguing that the question of design and analysis cannot easily be seperated. They contended that :

> "in actual research, one's design and data collection precede analysis. But knowledge and anticipation of analysis problems are absolute pre-requisites to a satisfactory design".

Mautz (1980) extends support to Sellitz and Deutsch, by adding that the research methodology used has to match the prevailing knowledge of the phenomena under investigation. Based on this argument, this research design has been guided by the fundamental questions, which the researcher intends to investigate.

Essentially, the study is an example of expost-facto (retrospective) reearch. It was not possible to assign firms based on random treatment to start-up, growing and declining small firms, as well as large private enterprises. Therefore, each firm will be attracted to the group to which it belongs, according to the criterion and the working definition of the small firm and its stage of development.

4.5.2 Research Entities:

The focus is on indigenous small manufacturing firms in a developing economy - Sudan, at various stages of development, identified by the author as inception, growing, and declining stage. Manufacturing was defined in the International Standard Classifications of All Economic Activities (ISIC), prepared by the statistical office of the United Nations (1970) as:

> "The mechanical or Chemical transformation of inorganic or organic substances into new products, whether it is done in a factory, or in the worker's home and whether the product is sold wholesale or retail".

In addressing the financial problems of manufacturing firms in Nigeria, Olyompia (1978), added that the ISIC definition of manufacturing is strictly only applicable to the industrialised developed economies, since activities such as construction, repairing, mining, tailoring and assembling, generally come under the umbrella of manufacturing in many developing countries. Osaze (1981) in Nigeria, defines manufacturing as:

> "Those involved in the production of goods or services either by hand or machinery".

To determine the research entities and the research universe, the ISIC definition is used as a working definition, in conjunction with small and large firms working definition.

The manufacturing sector was chosen as a research setting for a number of reasons:-

1. The availability and accessibility of data in the manufacturing sector, compared to trading and other economic sectors. According to Government regulation and taxation procedures, all manufacturing firms have to prepare financial accounts. Moreover, there are other sources of information in this sector, such as the 'SIB'; the Sudanese Businessmen's Association (SBA) and the relevant Government departments.

2. Most recent studies of small enterprise development in developed and developing economies concentrated on industry (Bolton, 1971; Neck, 1977; Bosa, 1978; Tamari, 1980). Therefore it has been felt that comparison between the Sudan and other developed and developing countries would be made easier.

3. The trend of industrialisation in most developing countries, and the Sudan is no exception.

4.5.3 Research Sample:

It is widely recognised in social science research that the desired characteristics of the sample are:

1. A proper sample must give a precise picture of the population from which it is drawn.

2. The sample should be as small as precision considerations permit, as economical as possible, and gathered as swiftly as its various measurement techniques permit. Lazerwitz argues:

> "In the social sciences, sampling procedures and complications are thrusts upon the researcher by the very nature of his data-gathering conditions".

The majority of previous studies on small firms used in the pairing sampling techniques in which a certain group was matched according to certain criteria with the firms in the other group. Typically, industry and size have been used as pairing criteria. (Edminister, 1970; Bates, 1967; Boswell, 1973). The accounting year has been considered and used as a criterion for matching two sets of the firms. (Ray and Hutchinson, 1983; Blum, 1974). Marais added that:

> "pairing in this manner ensures that interfirm differences in industry and size do not affect the magnitude of the independent descriminant variables ......".

In this study, accounting years, as well as size and industry, in conjunction with other working definitions have been used as a pairing criterion. In comparing small and large enterprises, the kind of industry, as well as the same accounting year, have been used as a sampling criterion. Based on these identified criteria, the sample industry has been drawn from economically important industries in which small firms play an active part.

The Sudanese Industrial Survey of 1981/82, carried out by the Ministry of Industry, revealed that the food industry constitutes 77% of the total industry, and 80% of the food industry were small firms, defined by the Ministry of Industry as manufacturing firms employing 25 persons or less. The survey indicates that 30% of the total industry was concentrated in greater Khartoum.

TABLE 4.1

Classification of Industry According to Size

Rank	Industry	No. of Est.	%
1.	Food Processing	5411	77
2.	Metal & Mechanical	953	13.5
3.	Wood Products	245	3.5
4.	Textile	154	2.2
5.	Chemicals	107	1.5
6.	Cement & Building	77	1
7.	Printing	64	1
8.	Others	19	0.3
		7036	100

Source: Ministry of Industry;

Industrial Survey - 1981/2.

The geographical distribution of the total industry according to 1981/82 Industrial survey was as follows:

TABLE 4.2

Geographical Distribution of Industry In the Sudan

'Provinces'

	TOTAL	(1) GR KH	(2) White Nile	(3) Gezira	(4) Kassala	(5) Nile	(6) Blue Nile	(7) North Kurdo-fan	(8) South Kurdo-fan	(9) North	(10) Red Sea	(11) North Darfur	(12) South Darfur
No. of Est.	7036	2119	670	610	625	637	503	571	381	304	208	138	270
%	100	30	9.5	8.7	8.9	9.1	7.2	8.1	5.4	4.3	3	2	3.8

Figure : Rounded up.

Source : Ministry of Industry; Industrial survey (1981/82).

According to this industrial survey, the total number of industries employing less than 50 workers was 6,787 manufacturing firms, and 249 firms employing more than 50 workers. The survey shows that 4,740 firms are engaged in bread-making and grain milling, essentially processing industries employing less than 5 workers and 700 establishments in the mechanical, wood and metal industries, employing less than 10 workers (Handicrafts). Therefore, the total number of small manufacturing firms employing 10-50 workers including owners and managers, is 1347 firms. This number could be further broken down in the following:

. employing less than 25	1216 firms	90%
. employing 25 - 50	131 firms	10%

The research sample (45 firms) of small manufacturing firms represents 3.34% of the total sample of small manufacturing firms in the Sudan, which compared favourably with the sample of the Bolton Report in the U.K. (2,115/1.25 million) representing 0.17% of the total small firms registered in Britain. This sort of variation, despite the difference in stage of economic development between the Sudan and Britain, could be attributed to the methodology adopted in collecting data. The large private enterprises represents 6% of the total of large firms in the Sudan in both public and private sectors. Thus the total research sample (small and large) represents 3.8% of total industry in the Sudan.

TABLE 4.3

Classification of the Sample by Range of Employment:

	No.	Range of Employment	No. of Establishments	%
A. Small Firms	1.	10 - 20	6	13.3
	2.	21 - 30	15	33.3
	3.	31 - 40	7	15.6
	4.	41 - 50	14	31.1
	5.	Failed/	3	6.7
			45	100
B. Large Firms	1.	100 - 300	7	47
	2.	301 - 500	3	20
	3.	501 - 700	1	7
	4.	701 - 1000	1	7
	5.	Over 1000	3	20
			15	100

TABLE 4.4

The Nature of Industry and Geographical Location of The Research Sample

	% NATURE OF THE INDUSTRY							
	Food Process	Chemical	Metal	Blding Material	Printing	Drugs	Textile	
St.up Small Firm	50	25	10	5	5	5	-	100%
Small Growing Firm	55	15	-	5	20	-	5	100%
St. up + Growing Firm	52.5	20	5	5	12.5	2.5	2.5	100%
Declining S.F.	80	20	-	-	-	-	-	100%
Large	20	20	-	13.3	13.3	-	33.40	100%
20+20+5+15 Sample (60)	47%	20%	3%	7%	12%	2%	10%	100%

		% GEOGRAPHICAL LOCATION			
	GR. KH	C.RES. GEZIRA	KOSTI	EASTERN REGION	W.N. DUIEM
St. Up Small Firm	70	5	20	5	5
Small Growing Firm	75	-	20	-	5
St. Up + Growing Firm	72.5	2.5	20	2.5	2.5
Declining S.F.	80	20	-	-	-
Large	80	13	-	7	-
20+20+5+15 Sample (60)	75%	2%	13%	4%	3%

Table 4.4 shows that the research survey included many small businesses in the rural area - outside KH - besides those in the Greater Khartoum area.

The scope of the research has been designed to cover 20 failed companies, so as to compare and contrast declining firms with small firms at the inception and growing stages of development. The researcher experienced great difficulty in collecting data on this type of firm, because there is no statistical office in the Sudan, such as Robert Morris Associates in the U.S. and no bank data on small business. The researcher, by personal contact and capitalising on previous experience in the Management Development Centre, succeeded in getting data on five firms. This is a problem of research into failure in developed and developing countries in particular and the Sudan is no exception. This sort of difficulty stems from the fact that man always prefers to speak about his success, rather than his failure. Moreover, small business, by the facts of life, is vulnerable, being based on market niche and opportunities, and the entrepreneur, in the business of making money, can easily shift from one line of business to another.

Regarding the sample of the financial institutions, banks have been classified according to type and nature i.e. public commercial banks, private joint venture banks, public development banks, and private and joint venture development agencies. In the survey, 11 banks including the Central Bank, have been included. The research banks sample can be further classified into 3 public banks, 2 private Islamic banks, 1 foreign commercial bank, 1 joint venture commercial bank, the Public Development Bank (S.I.B.), 2 Private and Joint Venture development agencies and the Central Bank, representing respectively 60%, 50%, 33%, 100%, 100%, 100% of the total number in their sector. The banks sample included in the survey represents 61% of the total financial bodies operating in the Sudan. Regarding the financial data on banks, all banks (100%) have been included in this study.

4.5.4 Administration of the Survey:

The administration of the survey was affected by the researcher. The data to be collected was divided into two parts:

The first part pertained to the identification of businesses to be studied, in the sense of ascertaining whether the business could be legitimately included in the scope of the survey. The researcher has used personal contact and capitalised on the contacts made in the initial field work. The second part of the survey pertained to collection of data from the research sample.

The survey took place between the months of November 1985 and April 1986. The selection of the dates when the survey took place, was decided by the research position and stage, as well as the Supervisors' time schedule in supervising progress of the field work in the Sudan. For instance, a period between October and May is likely to influence the businessmen's response to research, because it is a busy time for all industries, whether seasonal or not.

4.6 Method of Data Collection:

Because of the confidential nature of the information needed, focussing on patterns of financing and the financial behaviour of small firms in the Sudan, it was realised from the outset that the method used in obtaining this data would be crucial to its success and validity. Entrepreneurs all over the world, are tight-lipped when the subject involves financial data (O mopariola, 1978).

Previous research into company finance, even in developing countries, where dependable records exist, have produced a low response rate. (Bolton, 1971) (0.17%). In view of the unsuitability of questionnaires in collecting data from small business in a country with a 75% illiteracy rate (UNISCO, 1978), and the low response rate of previous postal questionnaires (Bolton, 1971; Federal Research Report, 1953), the personal interview was the preferred method of collecting data from the research sample.

4.6.1 Interviewing:

Interviewing as a qualitative research technique was defined by Mosar and Kalton (1977) as:

> "A conversation between interviewer and respondent with the purpose of eliciting certain information from the respondent".

The importance of interviewing, as a qualitative research technique, arises from the necessity to come into contact with individuals so as to get access to the facts and opinions, and to receive them directly from the persons. Kaplan (1970) asserted that:

> "Where the source is accessible to the investigator, the interview is the device to tap it, and if it is not easily reachable, the controlling factor in th success of the interview is the reaction of the personalities involved".

Theorists in the field of methodology (Maccoby & Maccoby; Mosar and Kaplon etc), divided and classified interviewing into standardised and unstructured interviews. A structured or standardised interview was defined by Maccoby and Maccoby (1968) as:-

> "An interview in which questions have been decided upon in advance of the interview, and are asked with the same wording and in the same order for all respondents".

On the other hand, an unstructured interview was defined as an interview in which, the interviewer's technique is completely flexible, and is varied from one respondent to another.

The most fundamental argument supporting the structured interview is that one should not use a rubber yardstick. Maccoby and Maccoby summarised the opinions of the opponents and proponents of structured and unstructured interviews.

"In Favour of Standardised Interviews:

a. They incorporate a basic principle of measurement

b. They are more reliable

c. They minimise errors of questions wording

In favour of Unstructured Interviews:

a. They permit Standardisation of meanings rather than the more superficial aspects of the stimulus situation.

b. They are more valid

c. They are more flexible".

In practice, the choice is not between the completely structured and the completely unstructured, but between many possible degrees of informality. Merton and Kendall (1946), among many others, have advocated a semi-structured interview, which they call the "focussed interview", and which employs an interview guide with a list of objectives and suggested questions, but gives the interviewer considerable latitude within the framework of the interview guide (Maccoby and Maccoby). This approach was adopted in this study for collecting data from both the demand and the supply side, as also from other related and relevant Government departments.

The interview, as a research tool, has certain advantages which become more important in developed and developing countries. These advantages may be summarised as follows:

1. Being always direct, it is the only way by which certain types of information can be obtained.

2. Being highly flexible.

3. The greatest value is the depth and detail of information that can be secured.

Interviewing as a research technique is not free from problems and difficulties. Gopal asserted that the limitations of an interview resolve themselves into two types. First, those associated with the respondent, reflected in his inability or unwillingness to provide certain types of data. Secondly, those associated with the limitations and bias of the interviewer himself.

Evaluating interviewing as a qualitative research technique in the light of other alternatives - questionnaire and behavioural observation, interviewing is a recommended tool in studying small firms in developed and developing economies. Interviewing has proved its superiority over other methods in obtaining and collecting data in devleoping countries. Questionnaires could be utilised successfully in an educated community capable of understanding the questions and realising its own responsibilities to respond truly and fully. These conditions are unlikely to be met in under developed countries, and particularly from small businessmen.

There is a real difficulty in measuring good interviewing, and in deciding what interview characteristics are desirable. The only way to assess and evaluate interviewing is to examine and test the quality and quantity of data the interviewer brings home (Moser and Kalton, 1981). To assess the data collected; the information collected according to the interview guideline was related to the hypotheses in the question. This process has been carried out at the data organisation stage, during and after the field work. This approach helped to ensure the quality and quantity of data.

4.6.2 Interview Guideline:

The research interview guideline was built around the operational framework of the study. It fell into four parts. First, certain straightforward facts were obtained about the establishment, size, economic life, activities, ownership and the degree of family involvement in management (Questions 1-8). In the first part also general information on the entrepreneur was collected (Question 9 - Question 22).

In the second part of the interview guideline, important information was requested about the company financing, cost of finance, raising of funds approach, as well as problems faced by companies in raising institutional finance (Questions 23 - 73). This data represents the backbone of the research effort, as well as the most sensitive part of the work. This sensitivity stems from the fact that some small businessmen are hesistant and unwilling to provide financial data to outsiders other than family members.

The third part of the interview guideline deals with financial control characteristics of the Company. Questions 74 - 134. The fourth part was centred on the general issues and outstanding problems as perceived by the entrepreneurs (Questions 135 - 144).

As far as concerns the large private enterprises, the data was collected according to parts one and two of the interview guideline. (See Appendix - 1.A).

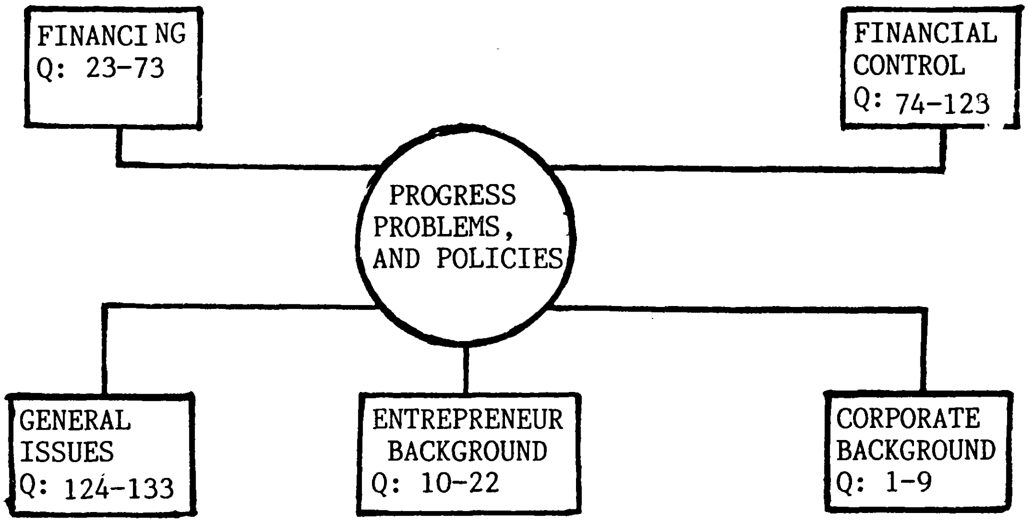
The interview guideline for the financial institutions was structured into six parts. The first part focussed on general information regarding the bank policy in relation to small business definition, financing and development (Questions 1 - 4). In the second part important information was requested on financing criteria, determination of cost of finance, collateral requirements, and other related issues. The third part dealt with documentation, and its degree of importance in relation to financing instruments. The fourth part was centred on the monitoring techniques employed by banks in following-up financed firms. The last part on the supply-side interview guideline was designed to elicit information on banking advice and other related general issues (See Appendix 1.B and Figure 4.1)

The data thus collected from all sources, were supported and augmented by the collection of secondary data from the research sample, mainly financial statements and other related and relevant materials.

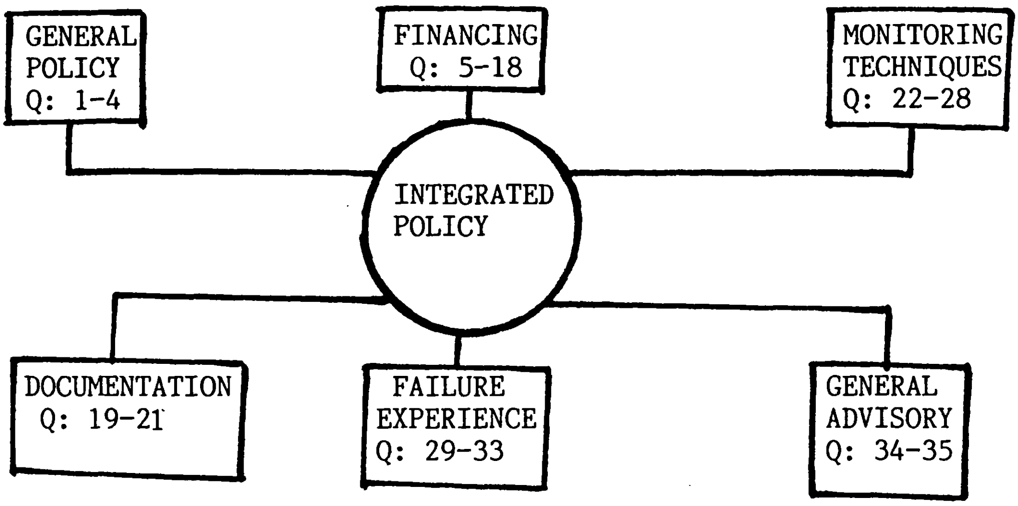
Based on the Boswell (1970) model in researching small firms "The Methodology of Researching the Small Firm", the shape of the interview conducted in this study can be represented diagrammatically as follows:

FIGURE 4.1 CLASSIFICATION OF INTERVIEW GUIDELINE

(A) RESEARCH SAMPLE - DEMAND-SIDE



(B) FINANCIAL INSTITUTIONS - SUPPLY-SIDE:



4.7 Problems of Data Collection:

Delineation of the problems and difficulties experienced by the researcher in conducting an empirical survey on small business financing and management in the Sudan, is not to say that small business is not beautiful, in opposition to the Schumacher School of thought, but rather to say that small business researching is an invaluable experience.

The first set of problems concerns knowing the exact number of small manufacturing firms in the Sudan, as well as the name and location of such companies. Attempts were made to obtain a list of manufacturing firms from the Registrar of Companies Office (RCO); but the data was inadequate and out of date. There was no classification of industry, since the relevant office kept records of companies only at the registration state. There is no further obligation for companies to provide the 'RCO' with annual accounts. Personal contact was used intensively, and of great help in maintaining a reasonable rate of response (50%).

The second problem experienced by the researcher was the unwillingness of entrepreneurs to speak about finance or to provide information on financing and financial problems. Out of 100 firms contacted personally only 50 firms agreed to provide the available data. The researcher experienced great difficulties in securing data suitable for financial analysis so as to satisfy the accounting period criterion and time-dimension. This is rather a common problem in small business research. Gr ves and Harrison contended that:

> "All empirical work suffers to some extent from data problems and Bolton (1971) relying quite heavily on questionnaire design, was no exception".

Due to non-existance of a central statistical office or any other bodies, where financial and accounting data of businesses collected and collated, all financial data for the whole research sample was collected personally by the researcher from the sample firms.

The third problem experienced by the researcher in conducting this small business survey in the Sudan, is best expressed in the statement of Stanworth and Curren (1973) on research into small business:-

> "Research into small businesses may not be very attractive because of the great diversity, individualism and number of small businesses means that valid findings with wide application are not easily come by. The small business owner/manager tends to be a highly self-sufficient person in many ways. He is unlikely to have had any formal management training, and thus does not speak the currently fashionable jargon of the social scientists. Researchers find it easier to communicate with executives in large business and the latter are more likely to have time to answer questions".

CHAPTER FIVE

HYPOTHESIS I

FINANCING CHARACTERISTICS OF THE SMALL FIRM IN A DEVELOPING ECONOMY - SUDAN

Starting a business regardless of size, whether in a developing or developed economy, requires a substantial amount of capital and financing for formation, take-off, survival and growth. Finance represents the life-blood of the business, therefore, a healthy business needs suitable blood, in terms of type, timing and cost. Bates and Hally (1982) stated that:

> "There is no single ideal way of financing a firm. Each business has individual circumstances which make its requirements unique: The industry and markets in which it operates, its age and the stage of its life-cycle which it has reached."

Ray and Hutchinson (1983) added that:

> "The elaboration of the traditional view of the financing of the small firm, that small firms start by relying upon the owners' resources........ If the firm is growing or wishes to grow it is likely that it will consider other available sources."

The main focus of this part of the study it to examine the individual sources of finance available to the small firms at various stages of development (inception and growing) and to explore the financing pattern and financial behaviour of small firms. Thus, this chapter was designed to address theoretically the issue of the empirical test of the traditional view of the financial life cycle of the firm, developed by Weston and Brigham (1978).

To establish the Sudan experience, along the way to establishing the research hypothesis, its theoretical and relevant policy implications, the chapter is organised as follows:- Part I provides insight into financing characteristics of small firms at various stages of development, based on comparison between small firms and large private enterprises sample. This part is re-classified into four sub-parts. Analysis of the pattern of financing is presented in depth in part II. The concluding section summarises the main investigations findings, and the theoretical and policy implications that emerge from this part of the study.

In establishing the research hypothesis (1), the analysis was based on historical financial and accounting data obtained from the research sample (quantitative) as well as opinions and views of entrepreneurs and management of the sample firm (qualitative). This approach of analysis (Traingulation) was made possible by the research methodology adopted in collecting data (See Chapter 4).

5.1: THE MAIN SOURCES OF FINANCE

In addition to the owners' interest and resources as an internal source of finance, there are four main alternative sources. Firstly, family loans and financial support, in terms of short-term or long-term finance at start-up stage and/or throughout the life cycle of the firm as a family business. Secondly, trade credit facilities. Thirdly, bank borrowing, in the form of either overdraft facilities and other Islamic financing instruments (Murabaha and Musharaka) or medium and long-term loans. The fourth category of funds, internal to the firm, and a prominent source of finance for expansion and development, is retained profit.

Generally, these categories can be re-classified into internal and external source of finance, and short and long-term financing. The survey provides evidence that, in each of these groups, small firms at inception and small, growing firms as well as large enterprises, differ.

5.1.1: Source of Start-up Capital

An individual, setting up in business for the first time, falls into one of three broad categories. First, these were those starting completely from scratch, with owner resources, and with the owner having no experience in, or connection with, existing enterprise. Secondly, these were those which belong to family businesses and develop family business or divert family resources into small family business, receiving the financial (complete) and psychological support of the family members. In this category, the family has a great influence on the prospect, management and expansion policy. Finally, these were those who received financial support from family members and family business, in establishing their own business. In this group, the degree of family influence was rather less powerful than in the second group.

Table (5.1) shows that most small firms in the sample (67.5%) fall into the second and third group, which illustrates the influence of family as a socio-economic phenomenon. Each of these groups, with its historical background, brought a different profile and a different source of start-up capital.

Regarding large private firms, two categories could be drawn out. Firstly, those started very small within the financial ability of entrepreneur and the wealth of his family, representing 47% of the sample. Secondly, these were

Table 5.1: Historical Background of Small Firms Sample

	CATEGORY (1)		CATEGORY (2)		CATEGORY (3)	
	No.F	%	No.F	%	No.F	%
1. Current Starting-up Small Firms	6	30	10	50	4	20
2. Current Growing Small Firms	7	35	10	50	3	15
3. Small Firms Sample	13	32.5	20	50	7	17.5
4. Large Firms. / started very small	1	7	4	27	2	13
5. Large Firms. / started very large	3	20	5	33	0	0

those which started very large, representing 53% of the sample. The table (5.1) shows that 40% of the large private manufacturing sample, started very small within the boundary of family and owner resources as a small family business.

The research sample shows that 25% of the research universe was based on owners' resources at inception stage, 44% started as a family business, and 16% relied on owners' and family resources, providing the total of 85% of the whole research universe, established within the owner's and family resources.

Table (5.2) provides confirmation of the research hypothesis, showing that small firms at inception rely on personal savings and owners' resources in financing the initial capital needs. That sort of reliance on personal savings and family wealth is a good indication that small firms at inception, started with insufficient capital. Many developing countries appear in the last category according to the World Bank Calculation (1976). Sudan, in particular, belongs to the

Table 5.2: Source of Finance of Seed Capital

	CURRENT St.Up S.F		S.G.F.		LARGE	
	No.F	%	No.F	%	No.F	%
1. Personal Savings of Owners	10	50	17	85	4	27
2. Family Business	10	50	11	55	5	33
3. Loans From Family Members	12	60	11	55	6	40
4. Shareholders (Non-Family)	-	-	2	10	7	47
5. Bank - long-term loans	4	20	6	30	9	60
6. Bank - short-term loans	4	20	4	20	7	47
7. Hire Purchase Facilities	4	20	3	15	10	67
8. Trade Credit Facilities	0	0	0	0	7	47
9. Loans from Friends	1	5	0	0	0	0
10. Owners' and Family Resources	20	100	20	100	9	60

fifth category, with less than US$200 income per head of population. These categories of per capital income levels are a reflection of the real differences in standards of living and in economic welfare. The low per capital income creates low or zero savings and investment for the large mass of population. In the Sudan, there was a variation in income and personal savings, and that variation was the financing niche which creates small business, built on personal savings, family fortune and wealth.

The survey shows that large enterprises which started very large obtained external sources of finance in financing start-up capital needs. On the other hand, the research sample shows that large firms, which started very small, share the characteristics of small firms in financing start-up capital needs. This observation provides evidence that ownership and size are determinant factors of the financial structure of the firm.

The other financing variable, which discriminates between small firms and their large private enterprises counterparts at formation and inception stage of development, was the availability and use of the hire purchase system as medium-term loans from suppliers of machinery. The sample shows that 67% of large private enterprises had the privilege of using this type of financing, compared to 20% of small firms at inception (1980-85) and 15% of current small, growing firms at formation stage (1945-78). Small and large private enterprises had received hire purchase facilities under commercial bank guarantee and some large firms, as a strategic industry, received this kind of service under Government guarantee.

Starting with the question of the financial needs of an average start-up company, one has primarily to ask what is the amount of capital needed to start such an enterprise. There is no empirical work in the Sudan providing an answer to this question. This finding itself stands as empirical justification for this part of the study, providing material evidence of its originality and significance (See Chapter (1) (1.2)). To provide an answer to this question, all small manufacturing firms financed by the Sudanese Industrial Bank (S.I.B.) from 1962 to 1983 (22 years) and the research sample were used as a universe. The S.I.B. firms were selected as a universe for the determination of start-up capital needed by an average small manufacturing firm, because of their size and ownership, categorised as privately-owned small manufacturing firms employing less than 50 employees (See Chapter 1 on S.F. definition). To provide a firm conclusion, the range of seed capital employed by the research sample was considered, in order to augment small firms financed by S.I.B. results. The analysis provides a most surprising result, that the finding based on the research sample was in agreement with the result derived from the S.I.B. sample. That sort of agreement was an indication and reflection of the quality and degree of strength of the derived premise.

Table 5.3: Size of Investment of Small Manufacturing Firms Financed by S.I.B. 1962-1983

L.S. (000's) (000's)

YEAR	TOTAL INVESTMENT BANK AND OWNER	TOTAL NO. OF S. FIRMS FINANCED	AVERAGE INV. AT ST. UP
1962	131	5	26
1963	588	17	35
1964	503	16	31
1965	344	8	43
1966	1350	19	71
1967	268	17	16
1968	524	15	35
1969	6	1	6
AVERAGE 62-69 (SIXTIES)	3714	98	38
1970	526	6	88
1971	1066	19	56
1972	521	12	43
1973	3567	15	238
1974	605	12	50
1975	2320	10	232
1976	3124	12	260

L.S. (OOO's) L.S. (OOO's)

YEAR	TOTAL INVESTMENT*	TOTAL NO. OF S.F. FIN.	AVERAGE INV. S.M.F. AT ST. UP
1977 1978 1979	828 1493 1114	12 17 20	69 88 56
SEVENTIES 1970-1979	15164	135	112
1962-1979	18878	233	81
1980 1981 1982 1983	3410 2263 3607 3413	20 23 29 16	171 98 124 213
1980-1983	12693	88	144
1962-1983	31571	321	98

SOURCE: SUDANESE INDUSTRIAL BANK ANNUAL REPORTS 1962-1983

* TOTAL INVESTMENT - total bank contribution and owners' contribution at start-up

Table (5.3) indicates that the amount of capital needed to establish small manufacturing firms in the Sudan was about L.S.38,000 during the sixties and increased to L.S.112,000 during the seventies. The table provides evidence that the capital needed during the early eighties was on average L.S.144,000, equivalent to £22,000 converted according to the prevailing exchange rate. This increase in the capital needed to set-up small business could be attributed to macro-economic factors, mainly inflation, reflected in a continuous devaluation of the Sudanese currency (1979-1986), under the direction and control of the International lenders (IMF and World Bank). In the Sudan as well as in other developing countries, the rate of inflation as an economic indicator is not known either at official or unofficial level. The table (5.3) shows that the capital needed to set-up a business during the period (1962-1979) was about L.S.81,000. Thus, the capital needed to establish small manufacturing firms in Sudan before the first devaluation of the Sudanese currency was less than L.S.100,000.

The small growing firm research sample provides confirmation of S.I.B. results, that 60% of the sample (1945-1978), utilised start-up capital of less than L.S.100,000, and 100% of small dealing firms sample (1967-1975) started operations with less than L.S.100,000 as start-up capital.

Table 5.4: RANGE OF SEED CAPITAL EMPLOYED BY RESEARCH SAMPLE

	CURRENT St. Up S.F.		S.G.F. At St.Up		DECLINE At St.Up		S.F. SAMPLE At St.Up		LARGE At St.Up	
RANGE OF SEED CAPITAL: L.S. (000's)	No.F	%	No.F	%	No.F	%	No.F	%	No.F	%
Less than 100	5	25	12	60	5	100	22	49	2	13
Less than 300	10	50	17	85	5	100	32	71	7	47
Over 300	10	50	3	15	0	0	13	29	8	53
US$ (000's)										
Less than 50	7	35	1	5	4	80	12	27	1	7
50-100	6	30	7	35	0	0	13	29	1	7
Less than 100	13	65	8	40	4	80	25	56	2	14
Less than 250	18	90	12	60	5	100	35	78	4	27
More than 250	2	10	8	40	0	0	10	22	11	73

The survey shows that the amount of capital needed to launch such small manufacturing companies, varies significantly among different lines of business. The industry depending on imported machinery needs more than small manufacturing firms, based on locally produced machinery. Start-up in the field of soap and edible oil processing takes place with an average amount of capital of about L.S.1,000,000 (one million or

£143,000), compared to start-up in confectionery which depends largely on locally produced machinery and requires an average amount of capital of about L.S.85,000 (£12,000).

From this review, the investigation provides an empirical finding of significance to policy makers and those interested to help and foster small business sector.

The financing of start-up capital has to be done with a long-term perspective. The survey has identified the equity gap and non-availability of external and institutional finance for start-up capital, which has a great effect on capitalisation of small firms in the Sudan. The survey further indicates that the majority of the small firm sample started with no debt capital at all. This observation is an indication of the financial difficulties the entrepreneur faces in successfully setting up his endeavour. (See Chapters 6 and 7). It would be shortsighted to restrict the analysis of the capital needed to run and launch a young company successfully to its mere start-up capital. (Hunsdeik, 1986). Thus, the next sections are devoted to the discussion of the ongoing financial facilities available to small and large businesses.

5.1.2: Family Contribution in Financing the Small Firm

The examination of family contribution into small firms financing at inception and growing stages of development discusses the dimensions of seed capital, working capital and total capitalisation financial position.

5.1.2.1: Family Contribution into Seed Capital Financing

A large number of businesses in the Sudan and other developing countries is associated with the family system. (Bosa, 1978). The closely-held family-type businesses that prevail are due to traditional and psychological factors, within the concept of the extended family as a socio-economic phenomena. The family plays a very important role in making all kinds of contribution and loans to the business, both initially and later. The family in the Sudan and other developing countries, not only provides finance, but also sets up individual in business, providing all kinds of support. B. Osaze (1981) in Nigeria, observed the existence of family financing and support as a customary mutual-aid interest in the extended family system. The most frequent example as observed during the empirical work, was that of positive family contribution in formation, financing and management of small and large private enterprises in the Sudan (See table 5.1).

The sample shows that 43% of the small firm sample experienced 51 to 100% family contribution in the formation and financing of seed capital.

Table (5.5) shows that 55% of small firms at inception stage were medium and large users of family resources in financing the seed capital needs of the business. An interesting finding, which reflects a real indication of the significance of family in financing start-up capital and formation needs of small firms, was that 35% of small firms experienced 91 to 100% family contribution. This result was augmented by the finding that 98% of small firm sample received

Table 5.5: FAMILY CONTRIBUTION TO SEED CAPITAL OF SMALL FIRM SAMPLE

RANGE OF CONTRIBUTION:	CURRENT St.Up S.F.		S.G.F. AT INCEPTION		SMALL F. SAMPLE	
	No.F	%	No.F	%	No.F	%
Negative Family Contribution	7	35	8	40	15	37.5
Less than 10%	0	0	0	0	0	0
Between 10 - 20%	1	5	3	15	4	10
21 - 30%	1	5	0	0	1	2.5
31 - 40%	2	10	-	-	2	5
41 - 50%	0	0	1	5	1	2.5
51 - 60%	1	5	-	-	1	2.5
61 - 70%	1	5	-	-	1	2.5
71 - 80%	-	-	1	5	1	2.5
81 - 90%	0	0	0	0	0	0
91 - 100%	7	35	7	35	14	35
Medium Contribution 20 - 49%	3	15	1	5	4	10
Large Contribution 50% and over	9	45	9	45	18	45
Medium and Large Contribution 20 - 100%	12	60	10	50	22	55
100% Family Contribution in Seed Capital	7	35	7	35	14	35
100% Owners' Resources in Seed Capital	7	35	8	40	15	37.5
100% Owners' and Family Resources	14	70	15	75	29	73
Seed Capital From Family and External Source	5	25	0	0	5	13
Seed Capital From Owners and External Source	0	0	1	5	1	2.5
Firms Received Family Financial Support in Seed Capital Formation	20	100	19	95	39	98

family financial support at inception.

The survey provides empirical evidence offering positive support to the research hypothesis, that the family is the main source of start-up capital, substantiating the personal savings of owners (73%). The effect of the life cycle of the firms divided into stages of enterprise development (figure 1.3), in relation to family finance, was examined by building a relationship between family financing of working capital needs and total assets of the sample firm (current). To this point we turn now.

5.1.2.2: Family Contribution in Working Capital Finance

The family contribution to working capital finance of the current starting-up small firms and current small, growing firms was measured on historical accounting data basis, building a relationship between family loans as shown in the balance sheet, and the current liabilities of the companies in question.

The sample firms show that 60% of starting-up small firms, showed family loans as a part of current liabilities, as compared to 30% of small growing firms. This observation is an indication that the family is an important source of working capital finance at inception. The effect of the life-cycle of the firms could be seen clearly, by comparing the situation of current small growing firms with 95% of the sample receiving family finance for seed capital and formation needs. The main limitation of this analogy is embodied in the constraints and limitations of financial statements based on historical and conventional accounting records, asserted by scholars. (Bates, 1967, Adminster, 1970). Based on aggregate (mean), the family contribution into financing working capital needs of small firms at inception was 22% compared to 13% of small growing firms.

Table 5.6: FAMILY CONTRIBUTION INTO WORKING CAPITAL FINANCE OF S.F. SAMPLE (Balance Sheet Data)

RANGE OF FAMILY FINANCE AND LOANS AS A % OF CURRENT LIABILITIES	CURRENT St. S.F.		CURRENT G.S.F.	
	No.F	%	No.F	%
Firms showing Family Loans as a part of C.L.	12	60	6	30
Less than 10%	2	10	1	5
Between 10 - 20%	1	5	1	5
21 - 30%	3	15	1	5
31 - 40%	1	5	1	5
41 - 50%	0	0	1	5
51 - 60%	1	5	0	0
61 - 70%	1	5	0	0
71 - 80%	0	0	0	0
81 - 90%	2	10	1	5
91 - 100%	1	5	0	0
21 - 100%	9	45	4	20
51 - 100%	5	25	1	5
USE OF FAMILY LOANS AND FINANCE				
Firms with no Family Loans on Balance Sheet	8	40	14	70
Small User Less than 10%	2	10	1	5
Medium User 10 - 40%	5	25	3	15
Large User 41 - 100%	5	25	2	10
Medium and Large User (W.C. Finance)	10	50	5	25
Family Finance and Loans as a % of C.L.		22		13
Family Finance as a % of T.A.		9		6

Table (5.6) shows that 50% of small firms at inception were large and medium users of family loans and resources in financing working capital needs, compared to 25% of current small growing firms sample. The proportion of small firms at inception stage of development, compared to the proportion of small group firms sample, provides positive support to the research hypothesis that small firms, at inception, resort to internal and non-institutional finance. The subject observation provides an empirical examination, confirmation and modification to the traditional view of the Financial Life Cycle of the firms theory.

Based on aggregate historical accounting data, the survey provides more evidence of the negative correlation between family finance and growth, based on analogy and comparison between small firms and inception and small growing firms profile. This profile can be explained by the ability of small growing firms to obtain external sources of finance, measured in terms of loan security, contacts and growth pressures and needs.

The examination of total family contribution in financing total capitalisation of small firms, as presented in detail in table (5.7), provides an interesting result showing that the family contribution to the average small firms at inception was 38% of the total assets employed with 65% of the sample of small firms at inception, categorised as a medium or large user of family resources in financing business operations.

From this review of family contribution in small firm financing (3 measurement surrogates), a conclusion can be drawn that the family was a most important source of finance at inception stage of development. The empirical investigation provides support to the research finding at the initial stage (case study approach) that the role of family financing

Table 5.7: FAMILY CONTRIBUTION IN CAPITALISATION OF SMALL FIRMS

	CURRENT ST. UP SMALL F.		CURRENT G.S.F.	
	No.F	%	No.F	%
A) *RANGE OF FAMILY CONTRIBUTION IN FINANCING TOTAL ASSETS:				
Less than 10%	2	10	0	0
Between 10 - 30%	1	5	3	15
31 - 50%	2	10	1	5
51 - 70%	6	30	3	15
71 - 100%	4	20	3	15
51 - 100%	10	50	6	30
*Firms with no family connection at present	5	25	10	50
B) USE OF FAMILY IN FINANCING TOTAL A				
Small User Less than 10%	2	10	0	0
Medium User 10 - 30%	1	5	3	15
Large User 31 - 50%	2	10	1	5
Very Large User 51 - 100%	10	50	6	30
*Medium and Large and Very Large User	13	65	10	50
*Large and Very Large User	12	60	7	35
*Total Family Finance as a % of T.A. (MEAN)	38%		24%	

in business correlates inversely with growth, which provides an elaboration and confirmation of the effect of the life-cycle of the firm on financing characteristics. The empirical observation, as well as the prevailing social system of the Sudan, built round the concept of family, with deep roots in the extended family (Hammied, 1974), provides confirmation of the observation of DuSaulay (1968) in a similar environment - West Africa.

"In West Africa, the family makes it impossible for a man to become a millionaire, but it also prevents him from starving."

The limitation of this analysis of family contribution is that it was not based on longitudinal research work, but it does possess strength, being based on qualitative and quantitative data.

5.1.3: TRADE CREDIT

In this part of the chapter, trade credit, as external short-term financing, will be examined, so as to identify its contribution in financing small firms and large private enterprises in a developing economy - The Sudan. The examination of this source of finance and its degree of significance will centre in the following points: First, the proportion of firms receiving trade credit, and the correlation between trade credit and trade debt, its contribution to working capital and total investment finance, augmented by the opinion of entrepreneurs and management. Second, the examination of the real contribution of trade credit in financing of the firms based on the net-trade concept (NTC) (Bates 1964).

The investigation provides interesting results, challenging the finding of the literature, showing that trade credit facilities, as a source of seed capital, were very meagre, if not negative, for small firms, but represent one of the main sources of initial working capital for large private enterprises which started very large (47%). The research sample shows that 55% of small firms at start-up stage did not receive trade credit facilities, compared to 90% of small, growing firms receiving trade credit facilities as external short term finance.

The period of trade credit facilities obtained by small firms usually varies from one to six months. Trade credit facilities, from the Government, (30% of the sample) and overseas suppliers, are usually provided under 100% Commercial bank guarantee. The lack of bank guarantee and unwillingness of banks to provide bank guarantees to small firms, because of loan security, explains the insignificant use of trade credit facilities by starting-up small firms. The overseas suppliers provide credit facilities to small and large enterprises under The Cash Against Document (C.A.D.) system, which means that payment has to be made on arrival of goods. The 'C.A.D.' system was introduced in 1981, as a result of the Bank of Sudan's failure to meet its obligations towards suppliers of raw materials. The survey shows that the owners' financial position and ability to maintain accounts abroad is the only way to receive trade credit facilities from overseas suppliers, conditions unlikely to be satisfied by the typical indigenous entrepreneur.

"We have an account in a clearing bank abroad (England), which qualifies the business to get trade credit facilities from overseas suppliers, by providing payment securities and guarantees to suppliers, and avoids the Bank of Sudan rules and regulations."

Most of the entrepreneurs in the sample reported that the nature of industry, the financial climate, and policy pursued by Central Bank and Governmental rules and regulations have an effect on the availability of trade credit facilities from overseas markets and the Government. The manager of one of the small, growing firms, operating in what the Government categorised as the strategic industry and commodity sector said:

"We usually receive regular 35 day trade credit facility from Government as a sole owner of wheat. The flour wheat under this famine situation is regarded as a strategic commodity, under tight Government control and supervision, and on this account the facility is granted."

Regarding trade credit facilities from the local market, the entrepreneurs put more emphasis on personal relations with the suppliers, as well as their previous experience in purchasing raw materials, as a main reason for their success in obtaining trade credit facilities. This observation gives an indication of the influence of the entrepreneur as an individual.

Those owners' of small firms, which did not receive trade credit facilities, enumerated a number of reasons illustrating the difficulty in using trade credit facilities. The reasons may be summarised as follows:

.There are no trade credit facilities in the local market, and thus all business dealings are built round cash transactions.

.Trade credit facilities from overseas suppliers of raw materials and spare parts are usually affected by the confidence of suppliers in the financial ability of The Central Bank, as well as The Commercial banks' guarantees.

.Banks are not willing to provide guarantees to small business, because of poor loan security.

Regarding the correlation between trade credit and trade debt, the small firms at inception sample shows that 40% provide and receive trade credit facilities, 10% provide trade credit facility only, 5% receive trade credit facility, and 45% neither receive, nor provide any sort of trade credit facilities to their customers. The small growing firm sample shows rather different profile with 80% of the sample providing and receiving trade credit facilities. The large private enterprises sample provides evidence that large companies were larger users of trade credit than small companies with 100% of the sample receiving trade credit facilities, compared to 60% of small firms sample (Table 5.8)

Table 5.8: Correlation Between Trade Credit and Trade Debt

	1		2		3		4	
	Provide and Rec. T.C.F.		Provide and Did Not Rec.		Rec. and Did Not Provide		Neither and Nor	
	No.F	%	No.F	%	No.F	%	No.F	%
Inception - S.F.	8	40	2	10	1	5	9	45
Growing - S.F.	16	80	2	10	1	5	1	5
Large	15	100	0	0	0	0	0	0

To examine the real contribution of trade credit as a source of finance, the net trade credit concept is used as a measurement device. Net trade credit is defined as the excess of trade credit received by the company over trade debt.

Table 5.9: Positive and Negative Net Trade Credit

	1		2		3		4= 2+3	
	Co's. with +ve N.T.C.		Co's. with -ve N.T.C.		Co's. with zero N.T.C.		Zero +-ve N.T.C.	
	No.F	%	No.F	%	No.F	%	No.F	%
S.F. at Inception	6	30	5	25	9	45	14	70
Small Growing Firms	16	80	3	15	1	5	4	20
Large Firms	13	87	2	13	0	0	2	13

Table (5.9) shows that 70% of small firms at inception sample either maintained negative trade credit (25%) or zero

(45%), a good indication that trade credit was not an important source of finance for starting up small firms. The table shows the significance of trade credit as a source of finance for small, growing firms and large private enterprises sample.

The survey results based on aggregate accounting data, add additional support to previous investigation findings. The sample firms show that the trade credit contribution to working capital finance, measured by depicting a relationship between trade credit and current liabilities of the firm was higher in small growing firms than small firms at inception with 23% and 21% respectively. (See Table 5.10). The result is replicated in measuring the contribution of trade credit in total assets and a percentage of total debt finance.

The sample firms show that trade credit contribution to working capital finance, was higher in large firms showing 24%, than small firms. This finding has been contradicted by measuring the trade credit contribution on a relationship between trade credit and total debt finance received by the company. (See Table 5.10), The explanation of this contradiction is the fact that small firm financing was very short, confined to trade credit, bank borrowing and family loans, in the sense that the current liabilities of small firms equate in most cases to its total debt finance.

The foregoing discussion on trade credit contribution in small and large firms financing has theoretical implications. With respect to the small firms sample, the findings and premises from this investigation, provide positive support to the research hypothesis. Regarding small firms at inception

Table (5.10) - Trade Credit - Summary

L.S. (000's)	STARTING UP SMALL FIRM		GROWING S. FIRM		LARGE	
Volume of Trade Credit (Agg. Average)	2361		4104		28247	
Trade Credit Facilities (Average/Firm)	118		205		1883	
Trade Debt (Average P. Firm)	72		138		730	
Net Trade Credit Average	46		67		1153	
Trade credit as % of C. liab.	21%		23%		24%	
Trade credit as % of D. Fin.	21%		22%		10%	
Trade credit as % of T. Assets	8%		10%		8%	
	No.F	%	No.F	%	No.F	%
Companies receiving Trade Credit Facilities	9	45	18	90	15	100
Co's. receiving and providing Trade C.F.	8	40	16	80	15	100
Co's. receiving TCF only	1	5	2	10	0	0
Co's. providing TCF only	2	10	1	5	0	0
Co's neither receiving nor providing TCF	9	45	1	5	0	0
Co's Receiving TCF from Govt.	2	10				
Co's receiving from overseas market	3	15	8	40	14	93
Co's. receiving from local market/business	3	15	6	30	15	100
Co's. receiving from bus & Govt. (Local)	1	5	0	0	0	0
Co's. receiving Govt. Dept. & overseas	0	0	0	0	5	33
Co's with +ve NT Credit	6	30	16	80	13	87
Co's with -ve NT Credit	5	25	3	15	2	13
Co's with zero NT Credit	9	45	1	5	0	0
Co's with -ve & zero NT Credit	14	70	4	20	2	13

RANGE OF TRADE CREDIT AS A % OF CURRENT LIABILITIES

RANGE OF TRADE CREDIT AS A % OF C.L.	CURRENT ST.UP S.F.		CURRENT G.S.F.		LARGE	
	No.F	%	No.F	%	No.F	%
Negative	11	55	2	10	0	0
Less than 10%	2	10	4	20	1	7
10 - 20%	-	-	4	20	4	27
21 - 40%	4	20	3	15	3	20
41 - 60%	1	5	3	15	3	20
61 - 80%	2	10	2	10	2	13
81 - 100%	0	0	2	10	2	13
Total	20	100	20	100	15	100
41 - 100%	3	15%	7	35%	7	47%
61 - 100%	2	10%	4	20%	4	27%

sample, the finding challenged the full applicability of the traditional theory, on the ground that trade credit has been relatively less important at inception. The small, growing firm sample provides confirmation of the theory, showing the effect of the life-cycle on pattern of financing and financial behaviour. The provision of trade credit facilities under commercial bank guarantee put small firms at a disadvantage (inception), compared to large firms.

It is argued in financing literature that there is an association and analogy between trade credit and bank credit as external sources of finance. The focal point to be raised in this context, is to what extent this proposition holds true in the developing economies, such as The Sudan. To this point we turn attention now.

5.1.4: BANK FINANCING AND SMALL FIRM - "Demand side perspective"

Banks were criticised in both developed and developing countries for their lack of response to ideas, to new projects, and to the financing of both start-up and working capital and expansion needs of small firms. The empirical investigation provides evidence that the majority of small and large firms sample experienced bank borrowing, with variations in volume and type of finance and contribution of bank borrowings in financing business operation. This observation did not alleviate the fact that small firms at inception resort to owners' and family resources.

Based on aggregate historical financial and accounting data of the research sample, the survey provides strong support to the research hypothesis that small growing firms had better access to external sources of finance, than small firms at inception. The research sample shows that bank borrowing represents 30% of the total funds employed by the average small firm at inception, compared to 37% tended to be maintained by small growing firms. The large private enterprises sample provides an interesting finding that bank borrowing was a most important source of finance for fixed-assets needs and working capital finance.

With regard to availability of long-term bank loans, the sample shows that small firms at inception received an average of 5% of its total funds, compared to 10% maintained by an average small, growing firm. The small firms sample result, compared to the proportion of long term loans received by an average large firm (49%), was a good indication of small business long-term finance gap (See Chapter 7).

The empirical investigation shows that the long term loans reflected in the large firms' financial data, initially provided as working capital finance under overdraft facilities in most cases. This observation was an indication that there was a switch in the use of overdraft to one of a much longer-term role than is usually associated with this type of finance by larger firms under interest-based systems and after Islamisation in 1984.

Table 5.11: Bank Borrowing Contribution in Financing The Research Sample "Based on Accounting Data"

L.S. (000's) (Average)	C. St.Up S.F.	C.G.S. F.	Large
Bank short-term finance	352	520	3543
Bank long-term finance	72	189	11387
Total Bank Financing	424	709	14930
Short T.F. as a % of total Bank Finance	83%	73%	24%
Long T.F. as a % of total Bank Finance	17%	27%	76%
Total Funds	1407	1961	23006
Bank Finance as a % of Debt Finance	76%	76%	79%
Bank Finance as a % of Total Finance	30%	37%	65%
Bank Sh. T. Loans as % of T. Fin.	25%	27%	15%
Bank L. T. Loans as % of T. Fin.	5%	10%	49%

5.1.4.1: Type, Volume and Form of Bank Borrowing

The discussion of type and volume of finance received by small firms and their large private enterprises counterparts was based on the analysis of '154' loans received by the research sample from commercial and development financial bodies in the last five years (1980-1985), classified into 53 loans received by small firms at inception, 56 by small, growing firms and 45 loans received by large private enterprises.

Figure No. 5.1

Type and Volume of Loans Received by Research Sample:

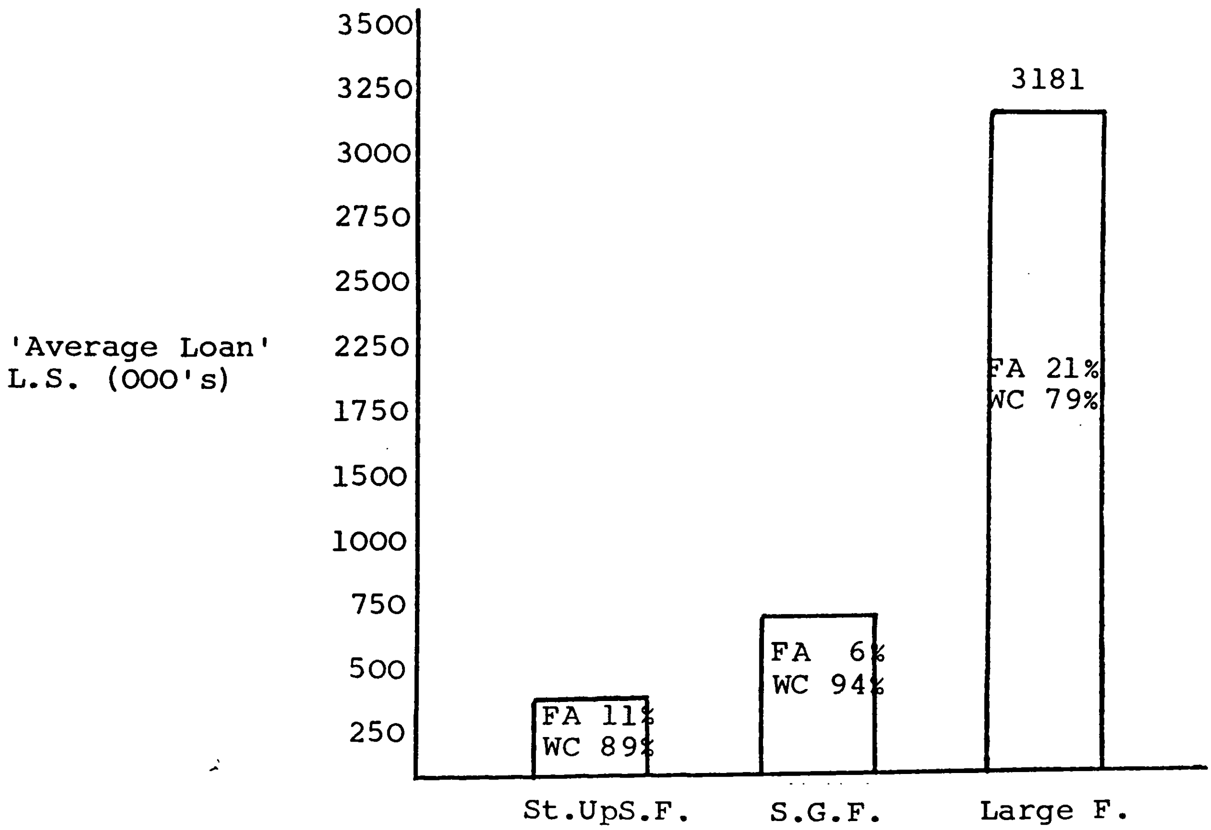


Figure (5.1) indicates that small firms, regardless of stage of development, received a low volume of finance and of short duration, as compared to large private enterprises. This low volume of loan is an implicit indication that small firms received institutional finance at a high cost rate, measured as bank fixed charges on the administration of loans (Brigham and Smith). This is, however, a separate issue, and will be tackled in depth in Chapter 7 on the finance gap.

The low volume of loans provided by banks to small businesses and particularly to small firms at inception, can be attributed to the level of security provided by small clients to lenders. It is the primary concern of any bank or development financial institution to safeguard its resources, and especially the funds loaned to its customers. The security provision of most banks in the Sudan, under both Islamic and interest based systems, are clearly laid down in their policy regulations and are generally determined by the particular circumstances of an applicant (See Chapter 8).

Table (5.12) shows that Islamic financing instruments (Murabaha and Musharaka) as short-term financing, made up a significant portion (51%) of term of finance provided by commercial banks to starting-up small firms sample. This could be explained by the fact that most small firms at inception sample (1980) either established or started operation after the Islamisation of the banking system in the Sudan. Table (5.12) shows an interesting point, that the volume of Musharaka loan was high, in relation to the total number of loans. This finding supports the contention of bankers that Musharaka financing provides a large volume of finance, and by its virtue assumes continuity of finance. The table (5.12) shows that over-draft facilities constituted a significant portion of finance received by small, growing firms before Islamisation and large private enterprises under both the Islamic and interest-based system.

Under the Islamic financing mechanism, most of small firms sample was financed by Islamic financing instruments - Murabaha-, which usually was very short and associated closely with specific goods and transactions. Large enterprises as old customers, were financed under overdraft facilities, permitted by the Central Bank under high level of security, conditions unlikely to be satisfied by small firms. The use of open credit facilities, with specific ceilings, built

TABLE NO 5.12

CLASSIFICATION AND ANALYSIS OF (154) LOANS REC. BY RESEARCH SAMPLE (1980-1985)

	CURRENT		ST. S.F.		CURRENT		S.G.F.		CURRENT		LARGE	
	L.S. (000's) Volume		No. of Loans		L.S. (000's) Volume		No. of Loans		L.S. (000's) Volume		No. of Loans	
	AMT.	%	No.	%	AMT.	%	No.	%	AMT.	%	No.	%
BANK OVERDRAFT	149	14	17	32	639	34	23	42	4758	50	18	40
MURABAHA	336	32	22	42	316	17	17	30	2177	23	14	31
MUSHARAKA	445	43	5	9	780	42	7	13	0	0	0	0
LONG-TERM LOANS	66	6	4	8	102	5	5	9	2587	27	11	25
BANK GUARANTEE (St.T)	9	1	1	1.5	0	0	0	0	0	0	0	0
OTHER SH.T. FIN/BANK	37	4	1	1.5	28	2	6	20	20	-	2	4
LOANS FROM FRIEND/S	2	-	3	6	0	0	0	0	0	0	0	0
TOTAL OF 3 (LOANS)	1044	100%	53	100%	1865	100%	56	100%	9541	100	45	100

TABLE 5.12 - continued

ALLOCATION OF LOANS

	Current St. S.F. AMT. (OOO's)	%	Current G.S.F. AMT. (OOO's)	%	Current LARGE AMT. (OOO's)	%
WORKING CAPITAL FIN.	930	89	1753	95	7555	79
FIXED ASSETS FIN.	114	11	112	6	1986	21
TOTAL	1044	100	1865	100	9541	100

round the overdraft facilities by large enterprises, creates a degree of flexibility in the allocation of funds and provides an assurance of continuity of financing.

Concerning the classification of the subject loans into short and long term loans, the table (5.12) provides evidence that although banks prefer short term credit, they do in fact supply all long term loans borrowed by large private enterprises. Thus, this is evidence that a company which has shown some evidence of security, can obtain long term loans from banks.

Based on the opinions of respondent entrepreneurs and management of small and large enterprises in the sample, the empirical investigation provides evidence that there was a mutual interest in the use of Murabaha finance between banks and their clients. For the lender, Murabaha is a very short, self-liquidating transaction, easy to control and administer, compared to Musharaka. Regarding the demand side opinion, one of the entrepreneurs related that:

> "Murabaha is similar to overdraft; it is very short term but there is no bank involvement in the management of the business."

The survey shows that 50% of the sample attributed the use of Murabaha finance to its similarity to overdraft facilities, and it represents the preference of the financial institutions. Very few entrepreneurs advocated Musharaka finance, arguing that Musharaka entailed the sharing of risks as well as ensuring continuous finance, the bank being an active partner in the project.

The use of Murabaha finance rather than Musharaka finance by entrepreneurs can be attributed to the main objective behind the establishment of an enterprise, centering in desire for independence and family involvement, singling out the effect of attitude, behaviour and typology on the choice of finance.

"We do prefer Murabaha to Musharaka, because financing under Musharaka is followed by bank rules, regulations and interference in the management of the business."

Regarding the suitability of these Islamic financing techniques to industry, most of the entrepreneurs contented that Islamic financing instruments were very short- lived, inflexible and did not take into account the need for continuity and timing of finance. The use of Murabaha - as prominant type of finance -, which is linked to certain transactions, forces small firms to seek other sources to tide them over until the application for another Murabaha is approved. That sort of conditions creates difficulties for small firms to secure their working capital finance.

Table 5.13: Forms of Bank Borrowing as Reported by Entrepreneurs

	1		2		3=1+2		4	
	CURRENT St.Up S.F.		CURRENT S.G.F.		S.F. SAMPLE		LARGE F.	
	No.F	%	No.F	%	No.F	%	No.F	%
Murabaha	15	75	15	75	30	75	13	87
Musharaka	5	25	5	25	10	25	2	13
Musharaka TRF into Murabaha	1	5	3	15	4	10	3	20
Overdraft Credit Facilities	9	45	16	80	25	63	14	93
Long-term Loans	5	25	7	35	12	30	9	60
Equity Finance	2	10	1	5	3	7	0	0
Bank Guarantee	1	5	0	0	1	3	12	80
Continuous Credit Facilities - Ceiling	0	0	6	30	6	15	14	93
Loans from Govt.	0	0	0	0	0	0	1	7
Madaraba	0	0	0	0	0	0	0	0

Table (5.13) sets a platform for the identification of a small business institutional finance gap based on non-availability of long-term financial facilities. The table shows that 60% of the large firms sample obtained long-term financial facilities from banks and 93% of the sample succeeded in obtaining a continuous credit facilities. (See Chapter 7 for more details on finance gap).

Regarding the use of bank borrowing in financing business operations, most entrepreneurs of the sample firms (87%) contended that the borrowing from commercial banks was the only external source of finance both available and easily accessible. As to the degree of importance of bank borrowing, the large private enterprises sample adds another dimension, with 67% of the sample having the opinion that the volume of investment was very large and the industry would not survive without the banks' financing and support.

"The saving margin and capacity of the individual to save is very low in The Sudan, in relation to meeting the needs of industry. Moreover, the shortage and fluctuation in the supply of hard currency compelled us to rely on bank borrowing".

As far as the cost of bank borrowing was concerned, most small and large firms in the sample reported that the cost of bank borrowing was too high for very short-term finance. The entrepreneurs and management of the research sample enumerated a number of problems associated with bank borrowing. The major problems reported were, the credit squeeze system, the lack of hard currency in the banking system, the criteria used by banks in providing funds to clients, timing of finance and The Central Bank regulations, rules and financial policy. The credit squeeze systems, based on the philosphy of reduction in the money supply in the financial market for macro-economic reasons, put small firms at a disadvantage with their low level of security and high degree of risk as compared to large firms. (See Chapter 8 for details).

The empirical investigations findings, based on the opinions of an entrepreneur (qualitative), revealed that the Sudanese Industrial Bank's financing of small industry was insignificant, whereas the financing of Islamic banks, as new bodies introduced into the Sudanese financial market, was very short-term and confined to assisting purchase of raw material.

Table 5.14: Proportion of Firms Raised Funds from the Sudanese Industrial Bank

	1	2	3=1+2	4	5	6
	Curr. St.Up S.F.	SGF at St.Up	S.F. Sample St.Up	Curr. S.G. F.	Large F. at St.Up	Curr. Large F.
1. Firms attempting to obtain funds	20%	25%	23%	O	13%	O
2. Did not make an attempt	80%	75%	77%	100%	87%	100%
3. Attempted and succeeded	20%	20%	20%	O	7%	O
4. Attempted and failed	O	5%	3%	O	7%	O

Table (5.14) illustrates that the proportion of firms applying for the 'S.I.B.' loans was very low with 23 and 13% of small firms and large firms respectively. The table shows that all firms applied and obtained finance from the S.I.B. at start-up stage. This was explicable by the Act and bye-laws of the bank. The explanation of the scene that a large proportion of the research sample (80%), made no attempt to

Fig 5–2: Current starting–up small firms sample

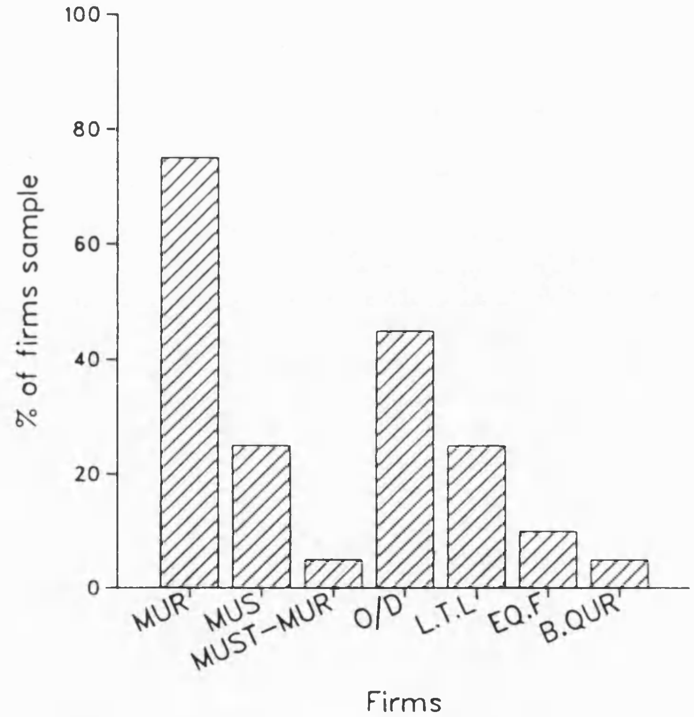


Fig 5–3: Current Small Growing Firms Sample

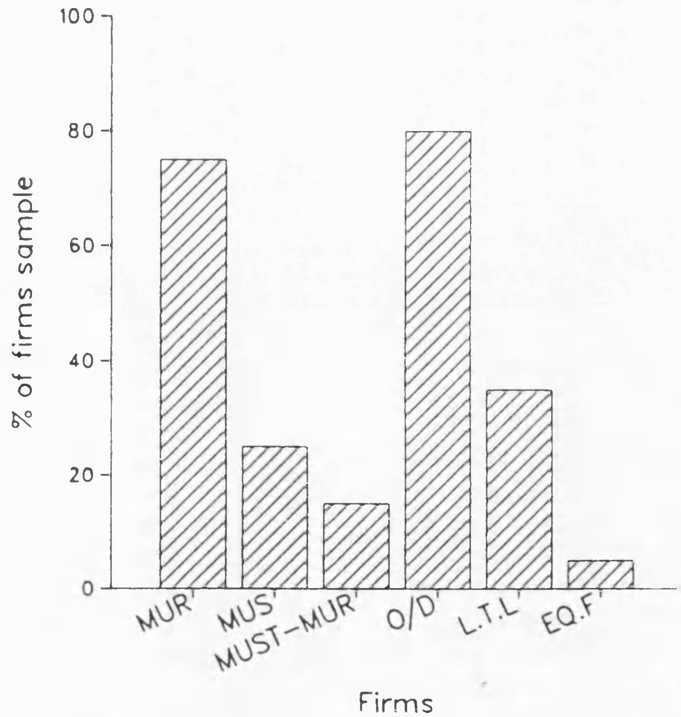
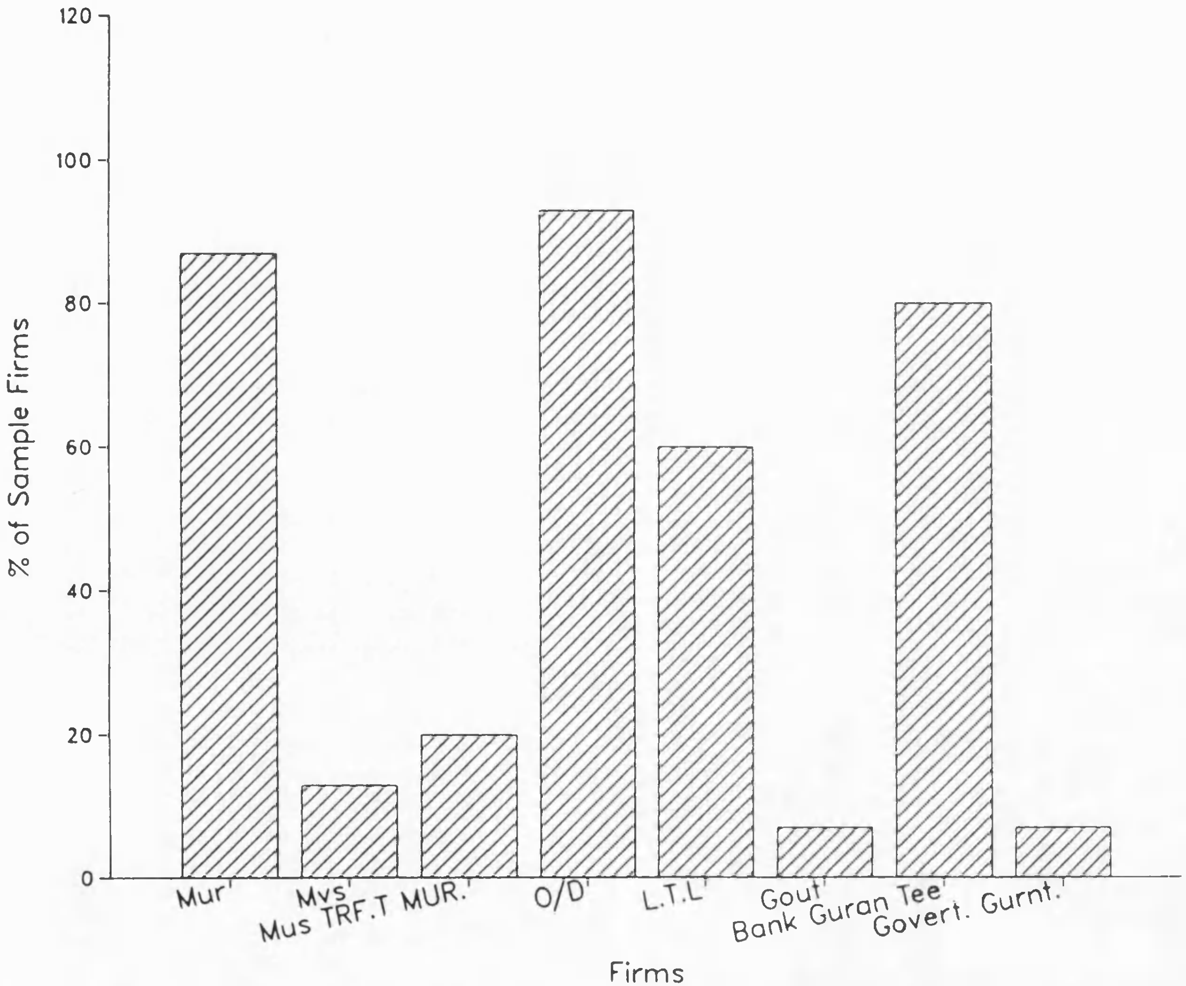


Fig 5–4: Forms of Bank Borrowing
Large Firms Sample



raise funds from the 'S.I.B.' can be seen clearly in table (5.15) here below, by reference to factors and reasons reported by entrepreneurs.

Table 5.15: Reasons Reported by Entrepreneurs who did not make an Attempt to Raise Funds From The S.I.B.

	% TAKEN OUT OF 16	15	15
	C. St.Up S.F.	S.G.F	LARGE
1. S.I.B. does not finance working Capital	44%	47%	40%
2. Business started very small and there was no need for add. F. Assets	25%	13%	0
3. Too bureacratic as a public Bank	25%	13%	13%
4. S.I.B. was known as a bank with very little capital and low financial ability	63%	73%	60%
5. Unknown to subject	25%	25%	0
6. Cost of borrowing is too high	25%	0	0
7. S.I.B. financing is closely associated with the availability of foriegn loans, directed to specific industry by lenders.	0	20%	0
8. Project over the capacity of the S.I.B.	0	0	27%

The research sample shows that 25% of small firms reported that the S.I.B., as a financier was unknown to them. This finding was an indication of the existence of a 'Bolton Gap', defined as a lack of information on available financial facilities (See Chapter 7 and8). Others reported that (18%) that the S.I.B. as a development public bank was too bureaucratic and highly under the influence of Government policies and directives. This point gives some hints on the public development banks and Government relationship (See Chapter 8 for more details). The banks' financing operations, being restricted to fixed assets finance, were criticised by industrialists.

With respect to Islamic banks, the research sample shows that 75% of the small business universe made an attempt and succeeded, in raising very short-term finance for raw material purchase, under Murabaha instrument.

The opinion of entrepreneurs, who made no attempt or attempted and failed, to raise funds from Islamic banks, ranged a round the practice of Islamic banks, not to provide finance for newly established businesses, or the banks were unknown to them. One opinion of an entrepreneur on Islamic banking finance introduced the concept of political commitment and ideology as a critical factor for raising finance from Islamic banks. The charge of favouritism is hard to prove or disprove. Almost every bank has some favoured clients and Islamic banks are no exception. (Awad, 1985) The hardly surprising result based on the opinion of the demand-side, positing an ideological bond between Islamic banks and many of their shareholders and clients, strengthens the charge.

Jurists and practioners found a justification for this practice on the ground that Islamic bank is not allowed to charge interest or penalty on delay payment according to sharia code and Islamic principles and that is why Islamic banks must be careful as to whom they lend their money.

Others argued that Islamic banks were profit-oriented, providing very short-term finance for profitable transactions against a higher level of security. It is not the intention of this study to prove or disprove this argument, which may have some validity. That Islamic banks have been making large profits is neither deniable nor objectionable. After all, banks are profit making institutions. The survey has identified that the contribution of Islamic banks in financing long-term needs of small firms sample was insignificant, if not non-existent.

5.1.4.2: Bank, Trade Credit and Family Finance, The Degree of Use and Their Correlation

With regard to the significance and intensive use of trade and bank credit, as an external source of finance and family loans in financing small firms and their large private enterprise counterparts, a relationship was depicted between these three sources of finance, in relation to current liabilities. The main objective of this exercise was to examine the correlation - if any - between these sources of finance. Family finance here is confined to items and amounts presented as a part of current liabilities, as an external source of finance.

A multiple scale of measurement based upon three grades (A, B and C) with different combinations and weight for what constitues a small, medium and large user was constructed. This approach -multiple - has been used so as to create a platform for highly documented inferences and findings.

Based on measurement (A), table (5.17) shows a number of interesting points of which three are of particular importance. The first, the size of financing received by small growing firms and large private enterprises with a certain degree of variation provided by external bodies, namely banks and general trade creditos. The second point was the use by small firms at inception of short-term finance, in terms of bank financing, rather than trade credit finance. This finding questions critically the contention that small firms use trade credit facilities as lower security and collateral requirement finance. The third point, table (5.21) shows that small growing firms and large private enterprises were large users of trade and bank credit in financing their operations. This correlation lends support to an unconfirmed hypothesis of Bates (1964):

"Small firms receiving large trade credit tend to be more likely to receive large bank credit as well."

The empirical investigation provides that Bates (1964) hypothesis was applicable to small, growing firms and large firms, but it was not applicable to the small firms at inception. This finding leads to a proposition that the large receiver of family finance is likely to be the small firm at inception.

The three points reflected by the table (5.17) extend positive support to the research hypothesis and in turn, provides confirmation of the life cycle theory of the firms. Table (5.18) based on scale (B) and table (5.19) on the unified scale (C) provide confirmation to the correlation finding, which stood as an indication of the validity of the derived results.

The explanation of this correlation finding is the fact that trade credit facilities from overseas markets as well as from the Government, were usually provided under Commercial bank guarantees. Moreover, under Islamic

TABLE NO. 5.16 SCALES OF MEASUREMENT

AS A % OF CURRENT LIABILITIES	(A)			(B)			(C) "UNIFIED RATE"		
	SMALL	MEDIUM	LARGE	SMALL	MEDIUM	LARGE	SMALL	MEDIUM	LARGE
	LESS THAN	RANGE	OVER	LESS THAN	RANGE	OVER	LESS THAN	RANGE	OVER
BANK CREDIT	40%	40-50%	50%	30%	30-39%	40%	20%	20-29%	30%
TRADE CREDIT	15%	15-20%	20%	20%	20-29%	30%	20%	20-29%	30%
FAMILY FINANCE	20%	20-30%	30%	20%	20-29%	30%	20%	20-29%	30%

Table 5.17 Receipt of Bank, Trade Credit and Family Finance
'Degree of Use Based on Scale A'

DEGREE OF USE	RECEIPT OF BANK CREDIT						RECEIPT OF TRADE CREDIT						RECEIPT OF FAMILY FINANCE					
	St.S.F.		S.G.F.		LARGE		St.S.F.		S.G.F.		LARGE		St.S.F.		S.G.F.		LARGE	
	No F	%	No F	%	No F	%	No F	%	No F	%	No F	%	No F	%	No F	%	No F	%
LARGE	9	45	9	45	6	40	7	35	10	50	10	67	7	35	4	20	1	7
MEDIUM	2	10	1	5	2	13	0	0	2	10	2	13	2	10	-	-	1	7
LARGE & MEDIUM	11	55	10	50	8	53	7	35	12	60	12	80	9	45	4	20	2	13
SMALL	9	45	10	50	7	47	13	65	8	40	3	20	11	55	16	80	13	87
TOTAL	20	100	20	100	15	100	20	100	20	100	15	100	20	100	20	100	15	100

Table 5.18 Receipt of Bank, Trade Credit and Family Finance
'Degree of Use Based on Scale B'

DEGREE OF USE	RECEIPT OF BANK CREDIT						RECEIPT OF TRADE CREDIT						RECEIPT OF FAMILY FINANCE					
	St.S.F.		S.G.F.		LARGE		St.S.F.		S.G.F.		LARGE		St.S.F.		S.G.F.		LARGE	
	No F	%	No F	%	No F	%	No F	%	No F	%	No F	%	No F	%	No F	%	No F	%
LARGE	11	55	10	50	8	53	4	20	9	45	8	53	7	35	2	10	1	7
MEDIUM	3	15	3	15	3	20	3	15	1	5	2	13	2	10	1	5	1	7
LARGE & MEDIUM	14	70	13	65	11	73	7	35	10	50	10	66	9	45	3	15	2	14
SMALL	6	30	7	35	4	27	13	65	10	50	5	34	11	55	17	85	13	86
TOTAL	20	100	20	100	15	100	20	100	20	100	15	100	20	100	20	100	15	100

Table 5.19 Receipt of Bank, Trade Credit and Family Finance 'Degree of Use Based on Scale C'

DEGREE OF USE	RECEIPT OF BANK CREDIT						RECEIPT OF TRADE CREDIT						RECEIPT OF FAMILY FINANCE					
	St.S.F.		S.G.F.		LARGE		St.S.F.		S.G.F.		LARGE		St.S.F.		S.G.F.		LARGE	
	No F	%	No F	%	No F	%	No F	%	No F	%	No F	%	No F	%	No F	%	No F	%
LARGE	14	70	13	65	11	73	4	20	9	45	8	53	7	35	2	10	1	7
MEDIUM	0	0	2	10	1	7	3	15	1	5	2	13	2	10	1	5	1	7
LARGE & MEDIUM	14	70	15	75	12	80	7	35	10	50	10	67	9	45	3	15	2	13
SMALL	6	30	5	25	3	20	13	65	10	50	5	33	11	55	17	85	13	87
TOTAL	20	100	20	100	15	100	20	100	20	100	15	100	20	100	20	100	15	100

financing mechanism - Murabaha and Musharaka transferred to Murabaha, the most common financing instruments used by banks in financing industry, banks usually imported raw materials on behalf of the clients, according to sharica code, which prohibits dealing in money.

5.2 PATTERN OF FINANCING AND FINANCIAL BEHAVIOUR

The pattern of financing of small firms in the Sudan presents interesting facts and contrasts, and provides empirical evidence of the effect of the life cycle of the firms, as well as its size on financial structure.

Based on aggregate accounting information of the research sample, table (5.20) provides a summary of the financing pattern of small and large firms. Tables (5.20) and (5.21) show that the small firm at inception stage of development, relies more on internal resources (58%) than the small, growing firm (40%). The table (5.20) indicates that 48% of the financial needs of the average small growing firms was financed from external funds.

The research sample shows the use of retained profit and directors' loans by small, growing firms, in financing their long-term assets needs. The directors' loans were very small (1%), but they were frequently of great strategic significance to the firms. The significance and importance of directors' loans and retained profit could be seen clearly in the light of unavailability of institutional long-term financial facilities.

The large private enterprises sample reflects a hardly surprising result, showing that 82% of the total funds

TABLE 5.20

BALANCE SHEET SUMMARY

SOURCE OF FUNDS:	CURRENT ST.UP S.F. AMT L.S (000's)	%	CURRENT GR.S.F AMT L.S (000's)	%	CURRENT LARGE FIRM AMT L.S (000's)	%
Bank O/D & short T. Loans	352	25	528	27	3543	15
Bank Long-term Loans	72	5	189	10	11387	49
Trade Credit	118	8	205	10	1883	8
Other C. Liab.	13	1	25	1	1969	9
Paid up Cap. 'Own. Res.'	679	48	680	35	3197	14
Directors' Loans -	-	-	26	1	32	-
Reserves	8	1	70	4	735	3
Retained Profits	32	2	133	7	75	-
Family Loans	133	10	113	5	185	2
	1407	100	1969	100	23006	100
Owners' and Family Resources	812	58%	793	40%	3382	15%
Other Equity	40	3%	229	12%	842	3%
Int. Fin. - Equity Fin.	852	61%	1022	52%	4224	18%
External Source of Finance	555	39%	947	48%	18782	82%
Bank Borrowing	424	30%	717	37%	14930	49%
LONG TERM FINANCING						
Bank Long term loans	72	8%	189	16%	11387	73%
Owners Resources	679	73%	680	56%	3197	20%
Family Resources	133	14%	113	9%	185	1%
Retained Profits	32	3%	133	11%	75	.5%
Reserve	8	2%	70	6%	735	5%
Directors' Loans	-	-	26	2%	32	.5%
TOTAL	924	100%	1211	100%	15611	100%
CAPITAL STRUCTURE						
Equity Fin. (inc. Fam)	852	61%	1022	52%	4224	18%
Long Term Debt	72	5%	189	10%	11387	49%
Short Term Debt	483	34%	758	38%	7395	32%
	1407	100%	1969	100%	23006	100%

(000's) L.S.	CURRENT ST.UP S.F.		CURRENT G.S.F.		CURRENT LARGE	
	AMT	%	AMT	%	AMT	%
Fixed Assets	881	63	1193	60	16639	72
Debtors	71	5	138	7	763	3
Stocks and WIP	399	28	483	25	4107	18
Cash and Bank Balances	40	3	101	5	110	1
Other Current Assets	16	1	54	3	1387	6
Liquid Assets	526	37	776	40	6367	28

TABLE 5.21

RANKING OF IMPORTANT SOURCES OF FINANCE

	CURRENT St. Up S.F.		GROWING S.F.		LARGE	
SOURCE OF FINANCE:	% OF T.F.	SCORE	% OF T.F.	SCORE	% OF T.F.	SCORE
INTERNAL SOÚRCE OF FINANCE	61	1	52	1	18	2
DEBT FINANCE	39	2	48	2	82	1
	100		100		100	
Bank short-term loans	25		27		15	
Bank Long-term Loans	5		10		49	
Trade Credit	8		10		8	
Other Liabilities-Accrued	1		1		9	
Family Reserves	48		35		14	
Other Equity	10		5		1	
Retained Profits	2		6		0	
Directors' Loans	0		1		0	
Bank and Trade Credit	38%		47%		72%	
Family and Owners' Resources	58%		40%		15%	

employed by an average firm, as a large user of trade and bank credit, was derived from external sources. The empirical investigation shows that the very smallest companies at inception stage of development tend to finance a large part of its financial needs from internal resources, and the very largest companies tend to rely on external sources of finance. This observation is inconsistent with Bates (1964) observations in Britain.

> "The very largest and the very smallest companies tend to finance a large part of their capital expenditure from their own savings."

The empirical investigation provides evidence that the issue of shares and capital was neither a source of finance for small firms nor for large private enterprises in the Sudan. This situation may be attributed to technical, social and psychological factors. On the technical level, there was no stock exchange of market for selling and buying shares in The Sudan. The social and psychological factors are embodied in the fact that most small firms were built round the family structure and interest, which stood as a barrier to the introduction of new members outside the family boundary. This factor introduced the behavioural aspect in the choice of finance and financing strategy, providing support to behavioural economists.

Regarding the classification of financing into short and long-term financing, the survey shows that small growing firms were more frequent users of short term finance than small firms at inception and large firms. This profile has an implication on the liquidity profile (See Chapter 6). Despite the low level of institutional long-term loans in small business financing, the long term financial facilities marked slightly the difference between small firms at inception and small, growing firms, with 8 and 16% respectively (table 5.20)

5.3: CONCLUSIONS

The empirical investigation of this part of the study have theoretical and policy implications. Some of the implications that emerge are of special significance for bankers, banks, policy makers and other specialised bodies willing and attempting to help the small business sector in The Sudan.

Essentially, the empirical study provides confirmation of the first research hypothesis, based on the concept of the life-cycle of the firms and its influence on mode and pattern of financing. The empirical investigation singled out the financial differences and dis-similarities between small firms at inception, small growing firms and large firms in developing economies like The Sudan. The major financial differences between these three groups may be summed up as follows:

-The small firm at inception stage of development tends to rely on the personal savings of the owners and family sources. This finding has a theoretical implication by providing documented modification to the traditional theory. The study shows that the role of family financing in business correlates negatively with growth. With respect to external sources of finance, the survey shows that small firms at inception were larger users of bank credit than trade credit in financing working capital needs. This result questions critically the established contention in the literature, and challenged the full applicability of the traditional theory to developing economies like The Sudan.

The small growing firms was a large user of trade and bank credit in financing business operations. This observation provides confirmation of the traditional theory at this stage of development, and extends support to Bates (1964) on the trade and bank credit correlation.

The empirical study shows that the very smallest companies at inception tend to finance a large part of their financial needs from internal resources (58%) and the very largest companies tend to rely on external sources of finance (82%). This finding questions Prais (1959) and Bates (1967) statement. The comparison between small and large firms extends support to Donaldsons' (1969) concept of financial mobility. Bates (1967) stated that:

"Small firms can frequently exist on the fringes or in the interstices of the economy, whilst big companies have a big say in the creation of their own environment."

With respect to trade credit, the large enterprises sample result, extends support to Davis and Yeomens (1974) observations:

"Large firms initiated an increase, not in credit given, but in credit taken at the expense of smaller firms."

The measurement of bank borrowing contribution in financing small firms at inception, small, growing firms and large enterprises, lends support to the proposition that banks provide finance under higher level security, and collateral requirements which were more generally stringent.

The issue of shares was a source of finance neither for the small, nor for the large firms. The empirical survey shows that the majority of small firms in the sample (98%) have no equity capital other than that of the owner and his/

her family. This is attributable to social, psychological and technical factors. At the policy implication level, this is not an invitation to set up a stock exchange market in the Sudan, as a step to promote small business. The contradiction between banks' rules and regulations and entrepreneurs' attitude, questions the practicality of 'Musharaka' instruments in financing entrepreneurial activities.

Due to non-availability of long-term financial facilities, small, growing firms tend to use short-term finance for long-term investment, so as to maintain growth. This practice is no longer possible for a firm financed under Islamic financing mechanism, which in most cases, as specified by Sharia code, is linked to specific items and transactions.

At the policy implication level, this part of the study provides an empirical answer to the still unanswered question in The Sudan, that is, what is the amount of capital needed to set up a small manufacturing firm in The Sudan? This piece of information based on the research sample and the Sudanese Industrial Bank (S.I.B.) financing operations (1962-1983), can be used as a platform for policy initiation and development of a financial scheme for the promotion of the small business sector. (See Chapter 12).

Given the methodology of analysis and the resultant findings, the next step in this scholarly process of investigation is to consider the implications on liquidity, financial risk, profitability and profit retention of the small firms in a developing economy _ The Sudan. To this issue we turn now.

CHAPTER SIX

HYPOTHESIS 2

LIQUIDITY, FINANCIAL GEARING, PROFITABILITY AND DEGREE OF SELF-FINANCE OF THE SMALL FIRM AT INCEPTION AND THE GROWING STAGE

In this Chapter, an attempt is made to establish the financial profile of small firms at inception and small growing firms, as well as their large private enterprise counterparts in a developing economy, the Sudan. Given the small amount of empirical work done in developing countries, and the non-existence of any empirical research in this area in the Sudan, the findings were analysed in relation to empirical research done in developed and developing countries. The criteria for inclusion were that the previous studies should involve substantial empirical work, including partial or comprehensive analysis of financial profiles.

The analysis of the accounting data was cross-sectional, consisting of 'snapshots' of all sample firms at a particular point in time, rather than looking at individual firms over - time. The finanacial data for the period 1982-1984 was aggregated, and accounting ratios were derived. To provide a firm conclusion, the analysis was based on aggregates of the whole period (1982-1984) and annual aggregate balance sheets derived from the years 1982, 1983 and 1984, so as to reflect the trend of the financial profile of the research sample.

Due to non-availability of accounting data suitable for analysis and poor accounting information maintained by the research sample, the analysis of the financial profile was based on a very short-term series (3 years), similar to the Oxford survey (1964) in the U.K., as a pioneer and exploratory work in the Sudan.

To establish the hypothesis under investigation, and the theoretical and policy implications that might emerge from the subsequent discussion, the chapter is organised as follows:

Part I focuses on the specification of the financial dimensions, the main areas of interest and measurement of the relevant financial variables. Analysis and establishment of liquidity, financial gearing, profitability and degree of self-financing profile is presented in depth in part II, III IV and V respectively. The concluding section summarises the main investigation findings.

6.1 Specification and Measurement of Financial Dimensions:

6.1.1 Specification of the Financial Dimensions:

For the purpose of this research, the financial profile will confine itself to the determination of liquidity, profitability, financial gearing and the degree of self-financing. This operationalisation was based on the previous research work which measured the financial profile of these four dimensions. (Beaver, 1966; Altman, 1968; Bolton, 1971; Bates and Hally, 1982) .
Altman (1968) added that:

> "Ratios measuring profitability, liquidity and solvency prevailed as the most significant indicators".

Liquidity was defined by Tamari (1978) as:

> "... a firm's ability to meet its short-term financial obligations without having to liquidate its long-term assets, or cease operations".

The second phase of the analysis of the financial profile was to examine the earning capacity of the firm. Gupta (1983) commented that:

> "profitability ratios are, in general by their very nature, sensitive to operational health".

Financial gearing was defined by scholars (Walker and Petty, 1978; Altman, 1968) as a relationship between debt and equity, taken as a measurement of the financial risk of the firm. The degree of self-financing was used by Bates (1964) as a surrogate for delineating financial differences between small and large enterprises in the U.K.

Ratios based on, and derived from, historied accounting data and financial information are often considered as yardsticks for evaluating the financial performance of the firm. The limitation of the financial ratios was highlighted by various theorists and writers in the area of finance. Beaver (1966) argues that:

> "The emphasis upon financial ratios does not imply that ratios are the only predictors of failure. The primary concern is not predictors of failure per se, but rather with financial ratios as predictors of important events ....".

Beaver (1966) went further stating the distinction between the power of ratios to predict and the ability of the researcher to use ratios for prediction. Gupta argues that:

> "Despite the voluminous literature which has been built up upon financial ratio analysis, the principles of such analysis have lacked scientific character. They have been based more on subjective feeling, convention, and belief about the importance of particular ratios, than on clear empirical evidence".

In selecting the ratios for analysis, the objective was to arrive at the minimum number of ratios which provided coverage of the areas of interest, and which yielded the maximum useful comparison with other studies. (Ray and Hutchinson, 1983) Tamari (1978) added that:

> "The exact choice of ratios will clearly depend on the object in view and the information available".

Lev (1984) used the "Principal Factor" analysis approach for the selection of ratios. This approach was criticised by Morrais (1979) who argued that:

> "However, any attempt at ratio identification should be supported by some sort of conceptual framework, and not based merely on mechanistic methods such as factor analysis or stepwise regression".

The selection of the financial ratios in this study, was based on the criteria advocated by scholars, which could be summarised as follows:

1. The popularity in the Literature;

2. The usefulness in the related previous research;

3. The availability of information; and

4. Their potential relevance to the study.

6.1.2 Measurement of Financial Dimensions:

A. Liquidity

Liquidity ratios have traditionally been given considerable importance, an indication of which is the fame and popularity enjoyed by current ratio. Bankers inevitably place great stress on liquidity analysis, believing it to be the foundation of a firm's financial soundness. Tamari stated that:-

> "the capacity of a firm to pay its expenses and debts as they mature is generally measured by the current ratio".

The current ratio shows to what extent the firm is able to meet its current liabilities out of the cash value of its current assets, without having to dispose of its long-term investments (Tamari, 1980).

A more fundamental criticism cited against the current ratio was that the notion of liquity is based on a false analogy of the role of current assets and current liabilities within the firm. Fadel and Parkinson (1976) added that the current ratio ignores the dynamic nature of the problem.

A recognition of the dynamic nature of the problem of evaluating liquidity, led Beaver (1966) to introduce the cash-flow model. The cash flow ratios used in Beaver's study were considered to be the strongest indicators. Lev (1984) added that:

> "These recent approaches, Beaver, 1966; Watter, 1957: Fadel and Parkinson, 1978; treat liquidity as a functions of flows of funds rather than stocks of funds".

Morrais (1979) added that:-

> "The observation had already been made that small firms seem to have heavier overdraft commitments relative to their size, and the cash flow to current liabilities ratio seems to measure the ability of the firm to cover its short-term obligations".

Potrone and Du Bois (1981) lend support to the usefulness of cash flow ratios in measuring liquidity, arguing that survival is a primary requirement of the small business.

> "Liquidity and cash flow ratios are often key indicators of the firm's ability to survive".

Beaver (1966) defined the concept of cash flow as net profit plus depreciation. This was analogous to Walter's (1957) definition of cash flow.

The working capital to total assets ratio was used by Altman (1968) as a measure of the net liquid assets of the firm, relative to total capitalisaiton. This ratio is frequently found in studies of corporate problems as a measure of liquidity. Horrigan (1968) stated that:

> "A sophisticated study in the 1940s concluded that the best ratios for predicting business failure were net capital to total assets, net worth to debt, and the current ratio".

The empirical work provides evidence that small growing firms deployed short-term financing into long-term assets. This sort of financing has an adverse effect on liquidity, and on ability of firms to pay their obligations. This finding necessitates the use of the long-term financing to long-term assets ratio as a liquidity indicator.

Having identified the logic behind the selection, the measures of liquidity employed in this exercise include:

1. Current ratio

2. Cash flow ratio

3. Working capital ratio

4. Current liabilities to total debt ratios, and

5. Long-term finance to long-term assets ratio.

B. Financial Gearing:

In measuring the financial gearing of the firm, Tamari, (1978), built a relationship between equity and long-term debt. Walker and Petty (1978) used debt to total assets ratios, current liabilities to total debt ratio, and fixed charges coverage as measurement devices. Altman (1968) used the market value of equity to book value of debt ratio as a measurement device. Altman adds the dimension of market value, which other studies had not considered.

Altman's measurement was criticised by various writers, on the ground that it requires market information on equity value, which is not available for un-quoted and small companies in developed countries, and not available for any company in the developing country - Sudan. The empirical work provides evidence that it was difficult, if not impossible to compute the market value of equity in the Sudan, because of the prevailing market imperfections, and the economic and market indicators were not known in the Sudan. Thus, book-value of equity to book value of debt was used in this study in measuring the financial gearing. The financial gearing indicators used in this study may be stated as follows:

1. Book value of the equity as a percentage of the book value of total debt.

2. Book value of the equity as a percentage of the book value of long-term debt.

3. Book value of the equity as a percentage of the book value of long-term finance.

C. Profitability:

It is rare to find two economists who would agree entirely about the measure of profit or return to be employed. It is even more unusual to find a measure of agreement about the definition to be used in any ratio (Bates, 1967). Bates's arguement was positively supported by Tamari (1978), who added that:

> "The term profitability may reflect different things to different users, no one indicator is .... a sole ratio of profitability".

Ray and Hutchinson (1983) looked at profitability in three different ways. They measured in terms of return on investments, assets turnover, and retained earnings as a percentage of total assets.

The use of retained earnings ratio was advocated by Altman (1968) on the ground that it is a measure of cumulative profitability over/time, and the age of the firm is implicitly considered in the ratio. Ray and Hutchinson (1983) added that:

> "This ratio is important for small firms as it reflects the fact that small growing firms are vulnerable because of lack of equity reserve, which reduces their ability to raise finance".

Sales to total assets ratios, is a standard financial ratio illustrating the sales generating ability of the firm's assets, was advocated by writers as a sound measure of profitability (Beaver, 1966; Edmister, 1972; Horrigan, 1966). Altman (1968) added that:

> "It is one measure of management capability in dealing with competitive conditions".

Reviewing this literature revealed that earnings before interest and tax, to total assets ratio, was used by scholars (Stevens, 1973; Elam, 1975; Bosa, 1978; Gupta, 1983) as an indicator of profitability profile. Thus, the profitability indicators used in this study are:

1. Sales to total assets ratio

2. Retained earnings to total assets ratio

3. Profit 'BIT' to total assets ratio

4. Profit margin.

D. Degree of Self-Financing:

The degree of self-financing was measured by Bates (1965) in two possible ratios:

1. A ratio of gross company savings to material investment in fixed assets and stocks: and

2. A ratio of gross company savings to expenditure on operating assets.

Gross Company savings were defined by Bates as retained profit plus depreciation and prior year's adjustment. The empirical work provides evidence that there was no dividend policy in small businesses, because of the type of ownership. The distribution of profits, as one way to avoid taxes, could be traced in Directors' remuneration and salaries. These items could be considered as a sorce of finance. The gross company savings in this study were defined as net profit before distribution of Directors' remunerations and salaries, plus depreciation.

From this review, the analysis of the identified financial dimensions was based on a theoretical foundation.

The selected ratios are presented in Table (6.1).

TABLE 6.1

VARIABLES INCLUDED IN THE MEASUREMENT OF THE FINANCIAL DIMENSIONS OF THE FIRM:

RATIOS/VARIABLES	LIQUIDITY	PROFITABILITY	FIN. GEARING	DEGREE OF SELF-FINANCING
1. Current ratio	X			
2. Cash Flow Ratio	X			
3. Working Capital Ratio	X			
4. L.T.F. to L.T.A ratio	X			
5. C. Liability to total debt ratio	X			
6. E. B.I.T. to T.A. ratio		X		
7. Retained E. to T.A. ratio		X		
8. Sales to Total A. ratio		X		
9. The Gross Margin ratio		X		
10. Equity as % of T.D.			X	
11. Equity as % of L.T.D.			X	
12. Equity as % of L.T. Fin.			X	
13. Gross Company saving to F.A. & Stock ratios				X
14. Gross Company savings to Op.A. ratio				X

6.2 Liquidity Profile:

It was established in accounting and finance literature that a high degree of liquidity is a positive sign of strong capacity of the firm to honour commitments. The other side of the liquidity profile is embodied in the negative implications of keeping idle cash and resources, with reduced or negative earnings. The latter point has had significant implications in the Sudan and other developing countries, with a high rate of inflation. (Estimated to be 40% in 1985). The traditional view of financing suggests that the small, growing firms experience liquidity problems.

6.2.A Current Ratio:

The survey indicates that the small firm at the inception stage of development was more liquid than the small growing firm, as reflected by the current ratio. 75% of sample small firms at inception maintained a liquidity profile, with current ratio of more than one, compared to 35% of small growing firms. This finding is consistent with Walker and Petty's (1978) and Gupta's (1983) study that current ratio, as a liquidity indicator, was seen to fall with the firm's growth. Based on current ratio, the survey shows that there was no significant different between the liquidity profile of the small growing firm and the large private company. This finding provides positive support to the Bolton Committee's (1971) and the U.S. Small Business Administration's findings (1984). The finding on small growing profile provides a positive support to Osaze (1981) inference in Nigeria. (See Tables 6.2 and 6.3).

6.2.B Cash-Flow Ratio:

In terms of cash flow ratio, the indication was that the small, growing firm was less liquid than the small firm at inception stage. The survey shows that 55% of small, growing firms maintained 1 to 20% cash flow as a percentage of current liabilities, compared to 65% of small firms at inception, which maintained over 20% (see table 6.3). Regarding large private enterprises, the cash flow ratio result is consistent with the finding based on current ratio. The liquidity profile of small firms at inception was an indication of reliance on internal finance and low portion of institutional finance (see Chapter 5).

TABLE 6.2

LIQUIDITY INDICATORS

	1982			1983			1984		
	St. S.F.	S.G. F.	LARGE	St.up S.F.	S.G. F.	LARGE	St.up S.F.	S.G. F.	LARGE
1. Current Ratio	1.84	.46	.89	1.22	.91	.79	1.20	.91	.86
2. CF. to C.Liab Ratio	117%	31%	<19>%	36%	34%	<15>%	21%	28%	<37>%
3. Working Capital Ratio	6%	<25>%	5%	5%	<3>%	<5>%	7%	<4>%	<5>%
4. C,Liab To T.D. Ratio	25%	77%	45%	55%	77%	38%	75%	86%	36%
5. L.T.F. to F.A.Ratio	107%	68%	91%	106%	95%	94%	111%	79%	95%

TABLE 6.3

LIQUIDITY MEASUREMENT BASED ON AGG.ACCOUNTING DATA

LIQUIDITY INDICATORS: (5). RANGE OF RATIOS:	START-UP		GROWING		LARGE	
	NO.F	%	NO.F	%	NO.F	%
1. Current Ratio:						
. less than 1	5	25%	13	65%	8	53%
. Between 1-1.49	9	45%	3	15%	7	47%
. Between 1.50-1.99	2	10%	1	6%	0	0
. 2 or more	4	20%	3	15%	0	0
	20	100%	20	100%	15	100%
C.R. less than 1 - illiquid	5	25%	13	65%	8	58%
C.R. more than 1 liquid	15	75%	7	35%	7	47%
2. Cash Flow Ratio:						
C.F. to C.L. Ratio						
. NEGATIVE RATIO (-ve C.F.)	1	5%	-	-	5	33%
RANGE:						
1 - 20%	7	35%	11	55%	8	53%
21 - 40%	5	25%	5	25%	-	-
41 - 60%	-	-	1	5%	2	13%
61 - 80%	-	-	-	-	-	-
81 - 99%	1	5%	1	5%	-	-
100 - 200%	1	5%	-	-	-	-
over 200%	5	25%	2	10%	-	-
100% and over	6	30%	2	10%	-	-
61% and over	7	35%	3	15%	-	-

	Curr St. up S.F		Growing		Large	
	NO.F	%	NO.F	%	NO.F	%
3. WORKING CAPITAL RATIOS:						
. co's with -ve w. cap.	5	25	13	65	8	53
. co's with +ve w. cap.	15	75	7	35	7	47
N.W. Cap. To T.A. Ratio:						
. NEGATIVE -	5	25%	13	65%	8	53%
. Less than 10%	7	35%	1	5%	5	33%
. 10 - 20%	4	20%	2	10%	1	7%
. 21 - 40%	4	20%	2	10%	1	7%
. 41 - 60%	-	-	-	-	-	-
. 61 - 80%	-	-	1	5%	-	-
. 81 - 100%	-	-	-	-	1	7%
. 10% or more	8	40%	6	30%	2	13%
4. CURRENT LIABILITIES TO TOTAL DEBT RATIO:						
. Less than 20%	0	0	0	0	1	7%
. 20 - 40%	1	5%	0	0	0	0
. 41 - 60%	0	0	0	5%	4	27%
. 61 - 80%	2	10%	2	10%	2	13%
. 81 - 99%	2	10%	1	5%	2	13
. 100%	15	75%	16	80%	6	40
5. LONG TERM FINANCE TO LONG TERM ASSETS RATIO:						
. Less than 50%	0	0	2	10%	1	7%
. 50 - 99%	2	10%	8	40%	6	40%
. 100 - 149%	12	60%	2	10%	6	40%
. 150 - 200%	2	10%	5	25%	1	7%
. More than 200%	4	20%	3	15%	1	7%
. 100 % or more	18	90%	10	50%	8	53%

Fig 6—1: Liquidity indicators
Current Ratio

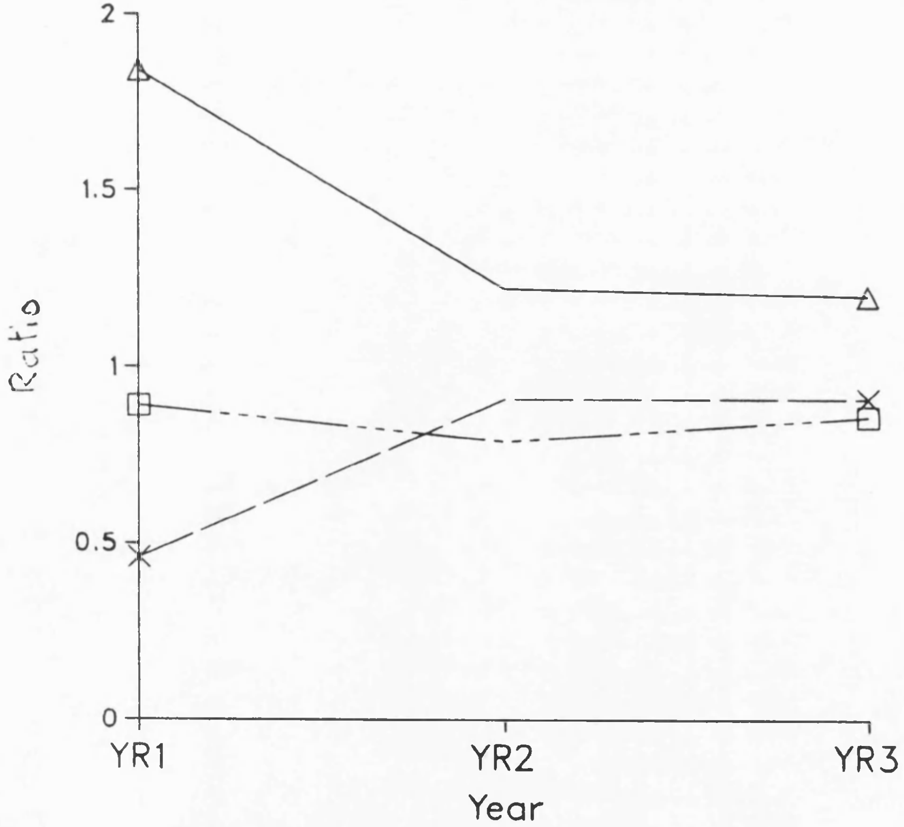
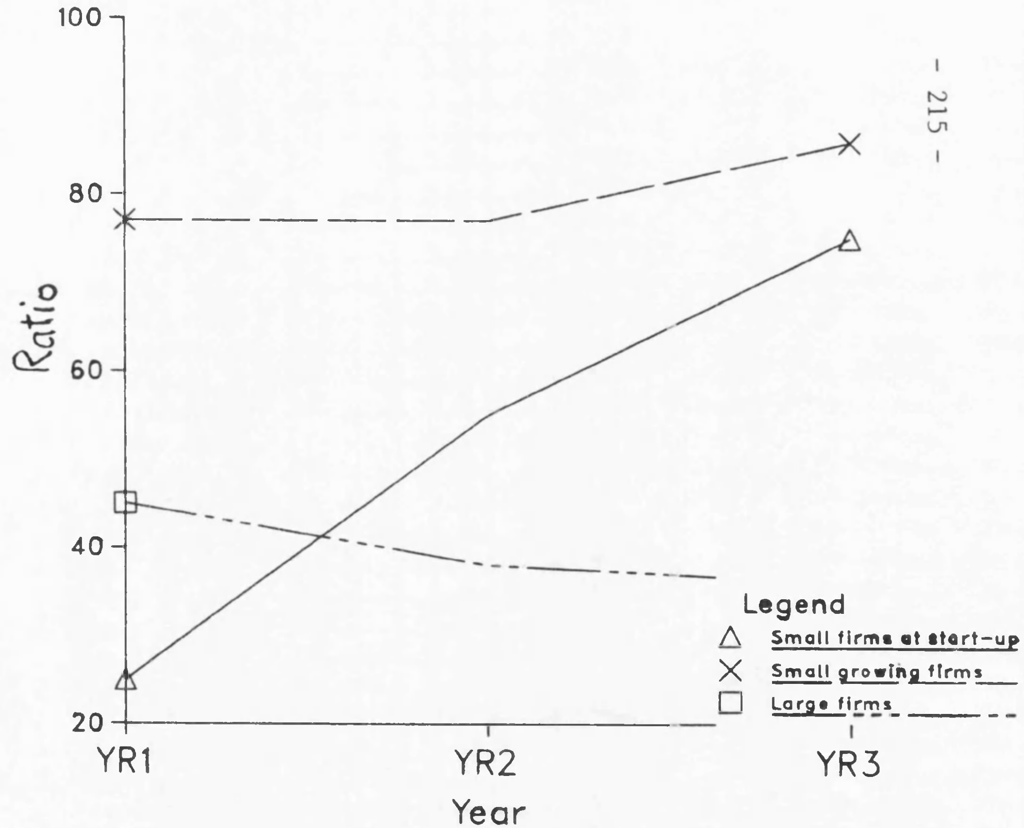


Fig 6—2: Current liability to total
debt ratio



6.2.C Working Capital Ratio:

Liquidity, as measured by the working capital ratio, provides support to findings based on current ratio and cash flow ratio. The sample firms show that 25% of starting up firms maintained negative net working capital, compared to 65% of small growing firms. Regarding the relationship between net working capital and total assets employed by the firm, the small firm at inception maintained 6% in 1982 and 7% in 1984, compared to small growing firms which maintained <25>% in 1982 and <4>% in 1984. This indication of correlation between growth and illiquidity profile.

The empirical work provides evidence that there was a severe shortage in working capital for both small and large private enterprises, as reflected by the working capital ratio. Regarding international comparison with the U.K. and Nigeria, a conclusion could be drawn that small firms, as well as large firms in the Sudan, experience greater shortage in working capital

TABLE 6.4

Working Capital Ratio:

SUDAN 'RESEARCH SAMPLE' 3 years (Av of Av)			NIGERIA Osaze (1981)		U.K.		
St.up S.F.	S.G.F	LARGE	Non R. Gr S.F.	R.G.F.	Bolton 1971	Ray & Hutchinson 1983	
						S.G.F.	I.C.F.C
6%	11%	2%	26%	18%	2%	11%	26%

The working capital shortage has an implication for earning capacity as well as the degree of capacity utilisation of assets.

16.2.D Current Liabilities to Total Debt Ratio:

As a consequence of limited access to the capital market, the small firm at inception relies on internal resources. Table 6.5 indicates that small growing firms have relied much more on short-term financing, with fixed asset showing increase. The reliance on short-term financing was reflected in a steady increase in current liabilites with a steady decrease in long-term financial facilities.

TABLE 6.5

Change in Sources and Uses of Funds:

	Small Growing Firm		Large Firm	
	1983	1984	1983	1984
Change in Sales	+ 61%	+ 27%	+ 49%	+ 3%
Change in Current Liabilities	+ 17%	+ 70%	<21>%	+ 10%
Change in Long Term Loans	+ 22%	<9>%	+ 62%	+ 18%
Change in Long Term Finance	+ 73%	+ 7%	+215%	-<16>%
Change in Fixed Asset	+ 29%	+ 10%	+ 20%	<17>%
Change in Current Assets	+133%	+ 1%	+ 7%	+ 20%

The liquidity profile, as measured by current liabilities to total debt ratio, shows that small growing firms maintained a high level of current debt to total debt. The low level of liquidity of small growing firms increased steadily from 77% in 1982 to 86% in 1984. The sample of small firms at inception with a degree of liquidity profile, provides evidence that the ratio of current liabilities to total debt rises with the growth rate and age of the firm, with 25% in 1982, 55% in 1983, and 75% in 1984. The availability of long-term financial facilities to large firms, meant that large private enterprises tended to be more liquid than small firms.

TABLE 6.6

Current Liabilities to Total Debt Ratio:

RESEARCH SAMPLE													
St. up S.F.				S.G.F.				LARGE				Walker & Petty 1978	
82	83	84	Av.	82	83	84	Av.	82	83	84	Av.	Small	Large
25%	55%	75%	52%	77%	77%	86%	80%	45%	38%	36%	40%	83.7%	62.99%

The sample shows that small firms were slightly more liquid than small firms included in Walker and Petty's (1978) research effort in the U.S. The low liquidity profile of small firms, as measured by this ratio, could be explained by unavailability of long-term financial facilities, which will be discussed in detail in Chapter 7., addressing the issue of the small business financing gap in the Sudan. This finding provides positive support to Bates (1971), Gupta (1969) and Wilson (1979). The finding that 80% of small growing firms sample with 100% current liabilities to total debt ratio, was an elaboration of the traditional view of the financing of the firm, and suggests that small firm experience a liquidity problem and maintained an over trading profile.

6.2.E Long Term Finance to Long Term Assets Ratio:

The empirical work provides evidence that there was a switch in the use of short-term finance in financing and funding long-term assets by small growing firms and large private enterprises (See 5.3 - Ch. 5) this observation was established in the literature by Tamari (1972), Wilson (1979), Bird and Juttner (1974). Peacock, 1974 states that:

> "... small firms depend substantially on overdraft for medium and long-term purposes".

The sample shows that 50% of small growing firms maintained less than 100% of long-term finance to long-term assets, compared to 10% and 47% maintained by small firms at inception and large private enterprises respectively (See table 6.4)

Fig 6–3: Long term finance to long–term assets ratio

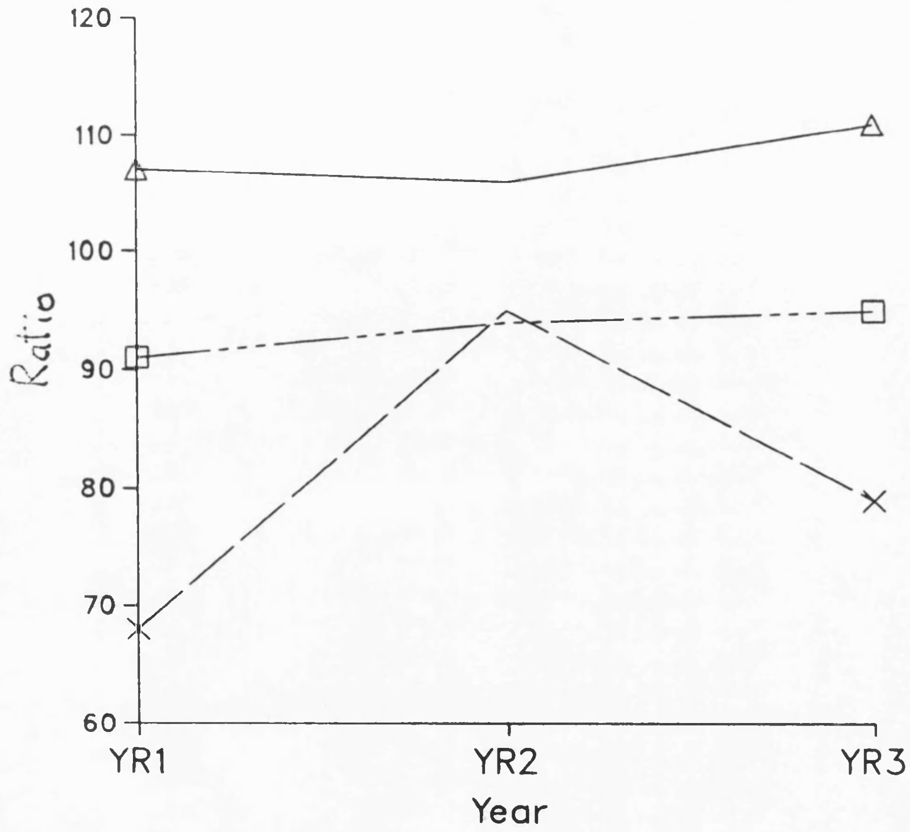
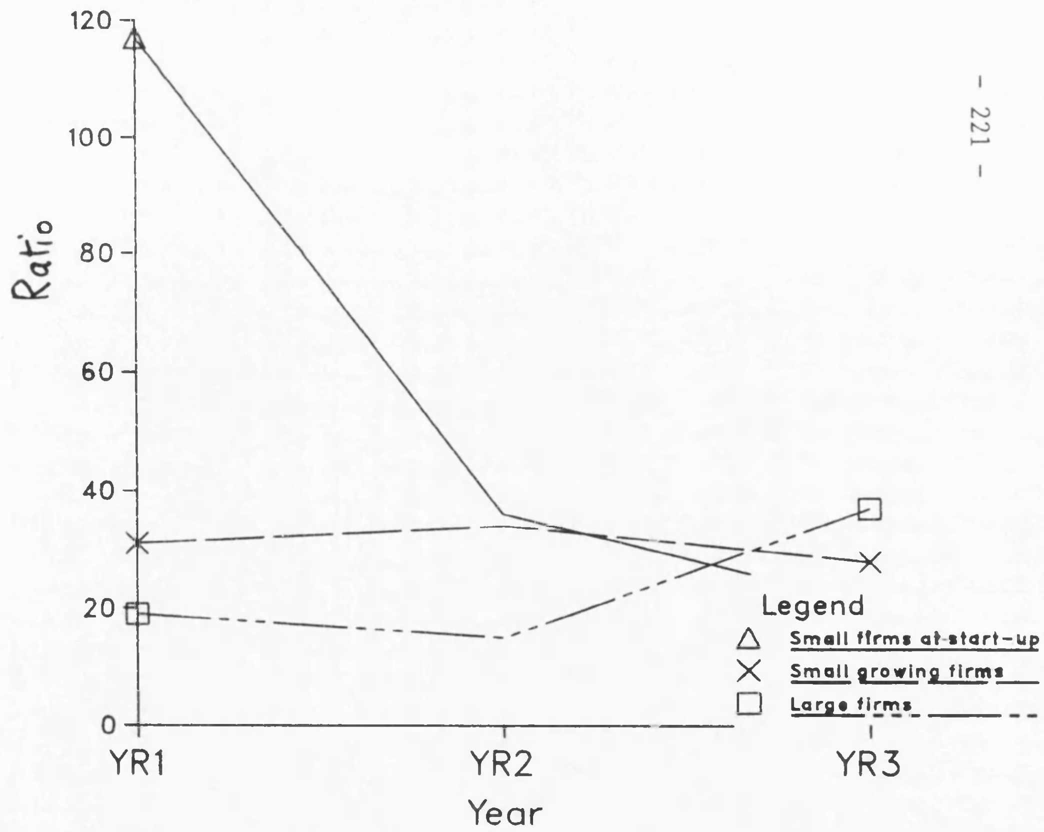


Fig6–4: Cash flow to current liabilities ratio



6.2.F Overall View:

From this review, a conclusion could be drawn that small firms at inception stage of development tended to maintain more liquidity than small, growing firms. This profile stems from the fact that small firms at inception tended to rely largely (58%) on internal resources, as a result of lack of access to the capital market, and the lending regulations and quality of entrepreneurs, whereas small, growing firms tended to rely more on short-term financing and borrowing to finance their working capital needs, as well as their long-term asset needs. (See Chapter 5; 5.3). This finding provides an elaboration of the traditional theory and confirmation of the fact that the life cycle of the firm, has an effect on the liquidity profile of small firm.

The research reveals an interesting point, that large private enterprises tend to maintain lower liquidity than small firms at inception, and a certain degree of similarity with insignificant differences with small, growing firms. This finding provides an answer to the controversial issue, that small firms have been found to be more illiquid than large firms (Bates, 1971; Gupta (1969); Walker and Petty, (1978) and Wilson (1979) conflicting with the findings of Chen and Balke (1979) and Elliott (1972) found that small firms tend to be more liquid than large firms.

6.3 Financial Gearing:

The extensive use of external sources of finance by large and small, growing firms with some degree of variation, has an implication on the financial gearing of the firm, explaining the dissimiliarities between small firms at inception and small growing firms. Generally speaking, the empirical investigation provides conclusive evidence that the small firm, regardless of stage of development relies more on equity and internal sources of finance, than do large firms.

TABLE 6.7

Degree of Capitalisation

Equity as a Percentage of Total Assets Ratio

RANGE OF THE RATIO:	1		2		3 = 1 + 2		4	
	St.up. S.F.		S.G.F		S. Firms Samp		Large	
	NO.F	%	NO.F	%	NO.F	%	NO.F	%
Less than 20%	2	10	1	5	3	8	5	33
Between 20 - 29%	3	15	4	20	7	18	4	27
30 - 39%	1	5	2	10	3	8	3	20
40 - 49%	1	5	5	25	6	15	1	7
50 - 59%	3	15	2	10	5	12	1	7
60 - 69%	4	20	2	10	5	15	1	7
70 - 79%	2	10	2	10	4	10	1	7
80 - 89%	2	10	0	0	2	5	0	0
90 - 99%	2	10	1	5	3	8	0	0
100%	0	10	1	5	1	3	0	0
X less than 50%	7	35	12	60	19	47	13	87
X 50% and over	13	65	8	40	21	53	2	13
X 60% and over	10	50	6	30	16	40	1	7

Table (6.7) illustrates the reliance of small firms at inception on equity: 65% of the sample made extensive use of equity in financing assets, compare to small growing firms with only 40%. The table provides evidence that large firms were more debt-oriented than small firms, regardless of the stage of development. This finding challenged the contention that the capital structure of the small firm is more debt-oriented. Based on the relationship betwen equity and total assets, indicating the degree of capitalisation, table (6.7) provides an elaboration of the life cycle theory of the firm. The higher the ratio, the lower capitalisation rate in a country, where personal savings are very low as a macro-economic factor. This finding extends support to the premise that small firm at inception experienced, and tended to maintain, an under-capitalisation profile.

TABLE 6.8

Equity as a Percentage of Total Funds

International Comparison

NO	COUNTRY	ST. UP. S.F.	GROWING	AVERAGE	LARGE	WHOLE AVERAGE
1.	U.S.A.		57%	57%	57%	57%
2.	U.K.		56%	56%	52%	54%
3.	JAPAN		22%	22%	22%	22%
4.	FRANCE		34%	34%	38%	36%
5.	ISRAEL		45%	45%	36%	41%
6.	NIGERIA		42%	42%	0	0
7.	SUDAN	61%	51%	56%	18%	43%

TABLE 6.9

Equity As a Percentage of Long Term Finance

COUNTRY	ST.UP. S.F.	S.G.F.	AVERAGE	LARGE	WHOLE AVERAGE
U.S.		85%	85%	74%	80%
U.K.		92%	92%	76%	84%
JAPAN		52%	52%	45%	49%
FRANCE		56%	56%	56%	56%
ISRAEL		75%	75%	56%	66%
NIGERIA		-	-	-	-
SUDAN	92%	84%	88%	27%	68%

Based on an international comparison of the financial structure and profile of small and large firms in developed economies (U.S., U.K., Japan, France) and a semi-industrial country (Israel), conducted by Tamari (1980), the research sample extends support to Tamari's findings that the equity level was higher for small than large private enterprises. The emprical work adds another dimension to Tamari's survey, showing that the equity level is higher for the small firm at inception than for both small growing firms and large private enterprises. The high level of equity in small business financing in the Sudan, was not a reflection of availability of equity finance, but rather an indication of nonavailability of external sources of finance.

A further analysis of the relationship between equity and total capitalisation, provides an interesting point that equity was predominant at inception, and its role in financing decreased with growth and age of the enterprise in operation. The retention of profit by small growing firms, as an internal source of finance, increased slightly the contibution of equity in financing business operations. (See table 6.10 here below).

TABLE 6.10

EQUITY AND OTHER SOURCES

TO T.A. (%)

	ST. UP. S.F. %				S.G.F. %				LARGE %			
	1982	1983	1984	Av.	1982	1983	1984	Av.	1982	1983	1984	Av.
Equity As % of T.A.	70	57	54	60	40	51	49	47	<2>	36	18	18
C.L. As % of T.A.	7	23	34	21	47	37	49	44	45	24	22	33
R. Profit as % of T. A.	.76	1	1	1	10	11	14	12	12	.05	.33	44

Taking book value of equity to total debt ratio as measuring financial gearing, the indication was that the small firm at inception stage of development had higher equity to total debt ratio of 1.64 than did small growing firms with a ratio of 0.82. With respect to large private enterprises, the indication was that small growing firms tended to maintain a higher equity to debt ratio than large corporations with an average of 0.25. This finding challenged the conclusion of Tamari (1980) that small corporations have a higher debt to equity ratio than do large corporations. The possible explanation of this profile was the fact that large private firms were more frequent users of long-term loans than small firms.

With respect to the comparison between small firms at inception and small growing firms, the research finding lends support to Elliott's (1972) observation that growth was found to affect the firm's debt position, with both debt-equity ratios. As far as large private enterprises are concerned, table 6.11 shows that the large firm has a higher debt to equity ratio than both the small firm at inception, and the small growing firm. A vital question to be raised in this context is why large firms, with a liquidity profile similar to small growing firms, have a higher debt to equity ratio than small growing firms. The study answers this question by providing empirical evidence that small growing firms rely more on current liabilities (38%) than do large enterprises (32%). On the other hand, large enterprises used more long-term liabilities financing (49%) than small growing firms (10%. Consequently, small, growing firms maintained a higher level of current debt to total debt ratio and lower debt to equity ratio, as compared to large private enterprises. This finding is consistent with the U.S. 'S.B.A.' Report (1984).

TABLE 6.11

Financial Gearing Indicators

INDICATORS	STARTING UP. S.F.				Small Growing Firms				Large			
	1982	1983	1984	Av.	1982	1983	1984	Av.	1982	1983	1984	Av.
1. Equity to T.D. Ratio	2.38	1.34	1.19	1.64	.66	1.05	.77	.82		.55	.22	.25
2. Equity to L.T.F Ratio	75%	75%	82%	77%	75%	82%	80%	80%		47%	25%	.23
3. Equity to L.T.Debt Rat.	316%	298%	468%	361%	289%	450%	428%	428%		89%	34%	40%

TABLE 6.12

Range of Equity to Total Debt Ratio

	Current St. Up. S.F.		C. S.G.F.		LARGE	
RANGES	NO.F	%	NO.F	%	NO.F	%
Less than 20%	2	10	0	0	4	27
20 - 40%	2	10	5	25	5	33
41 - 60%	2	10	2	10	3	20
61 - 80%	1	5	3	15	0	0
81 - 99%	0	0	2	10	1	7
Less than 100%	7	35	12	60	13	87
100% and over	13	65	8	40	2	13

The last two rows of table 6.12 provide firm evidence that the small firm at inception was low geared, as compared to the small growing firm. This finding provides positive support to the foregoing analysis of data, which form strong and documented support to the research hypothesis under investigation.

Based on Bolton's (1971) and Ray and Hutchinson's (1983) classification of what constitutes high and low level of financial gearing, a conclusion could be drawn that small growing firms were highly geared, with figures in line with Bolton (1971); Ray and Hutchinson (1983) in the U.K. and B. Osaze (1981) in Nigeria. Regarding large private enterprises, the empirical survey shows that financial gearing was very high. The difference between small growing firms and large private enterprises is embodied in the degree of financial gearing. The research work provides evidence that the level of financial gearing of starting-up small firms, increased with an increase in short-term finance received by small firms. This was an indication that equity to debt ratio decreased with the age of the small firm. The possible explanation for this trend could be access of the small firm to the capital market, after its early stage of establishment, in the form of short-term bank borrowing. This finding was an elaboration of the effect of the life cycle of the firm on pattern of financing and financial behaviour.

Fig 6–5: Equity to total debt ratio

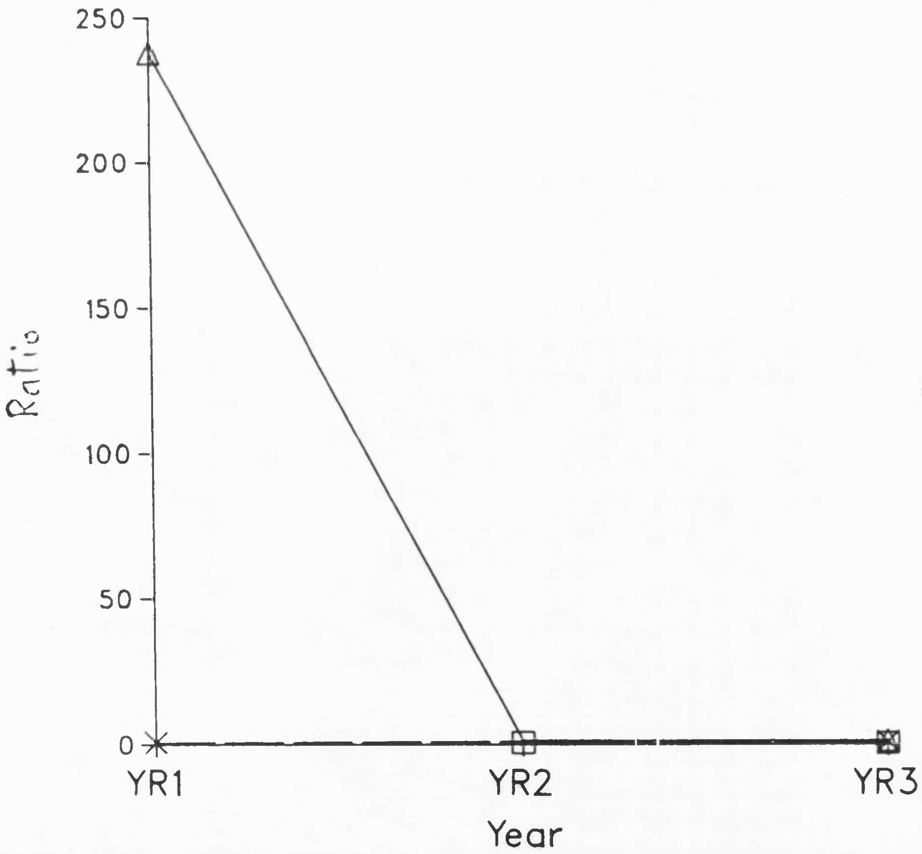


Fig 6–6: Equity to long–term debt ratio

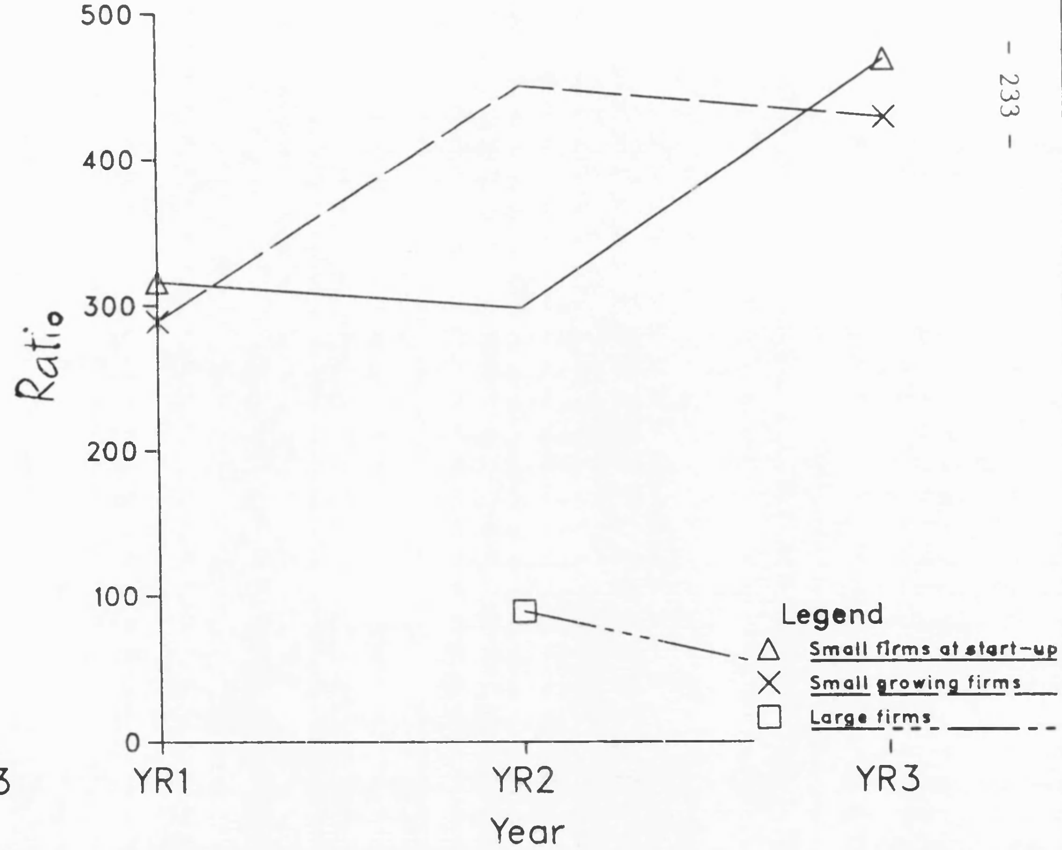


Fig 6–7: Equity to long–term finance ratio

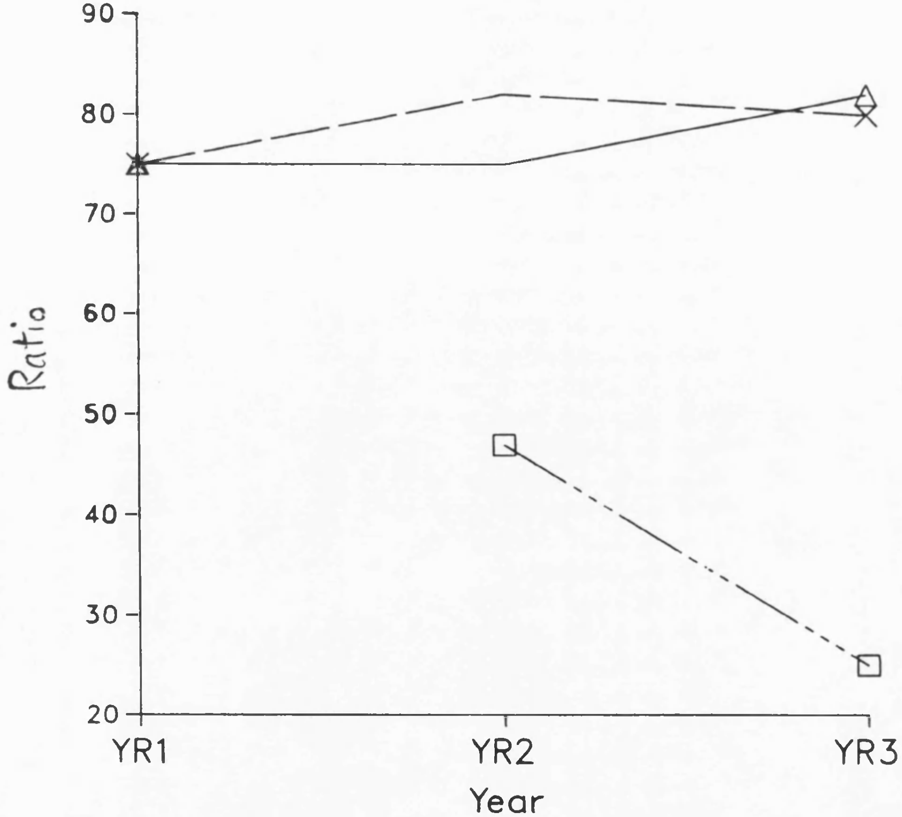
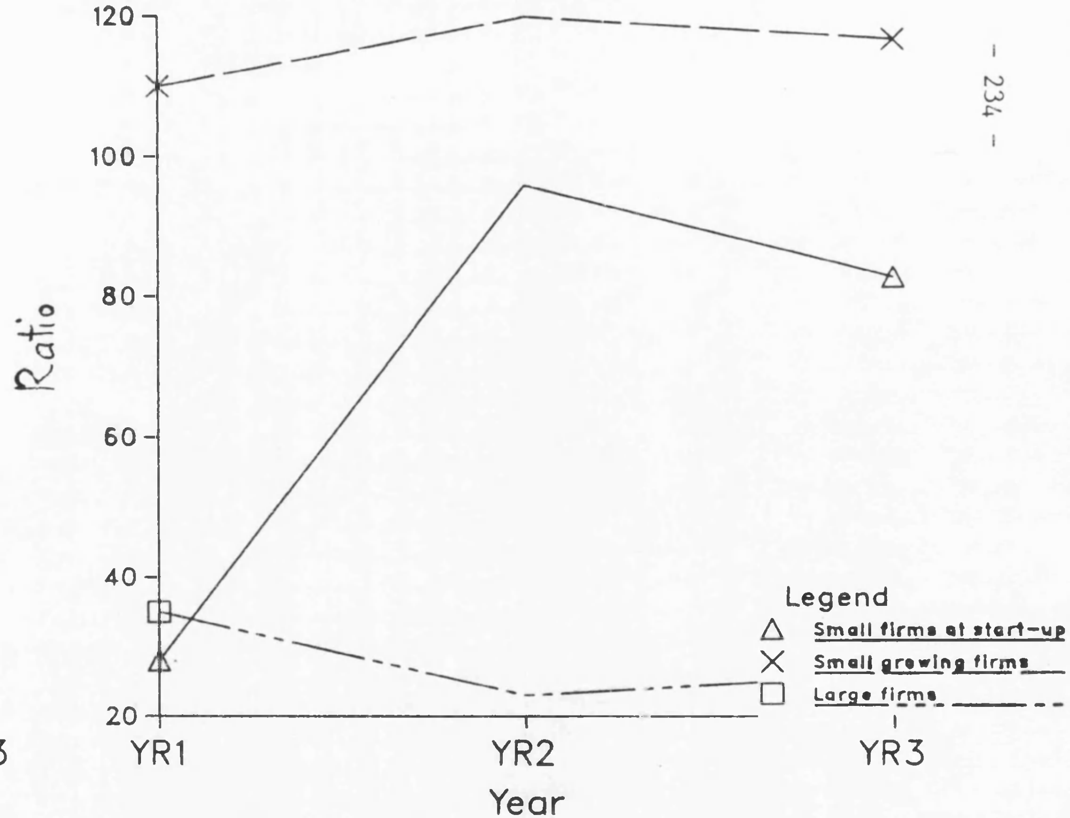


Fig 6–8: Sales to total assets ratio



The research findings, based on the relationship between equity and long-term finance and long term assets, confirm the analysis of the financial gearing profile, based on debt/equity ratio, that the level of equity is higher for small firms than for large firms, and the debt level of small firms is very different. This observation in turn, questioned critically Bolton's (1971); Elliott's (1972); Chen's and Balke's (1978) and Tamari's (1980) findings, and lends positive support to Bates's (1971) finding that debt level tends to be lower for small firms.

The nonavailability of long-term debt to small business at inception, could be seen clearly in the similarity in equity level as measured as a percentage of long-term finance or long-term loans. (See table 6.13). This is rather a seperate issue, and will be discussed in depth in Chapter seven of this study on identification of the small firm's finance gap in the Sudan.

TABLE 6.13

Equity to Long Term Finance Ratio

Range of -

	Start Up S.F *		S.G.F		LARGE	
	NO.F	%	NO.F	%	NO.F	%
Less than 20%	0	0	0	0	2	13
20 - 40%	1	5	0	0	3	20
41 - 60%	4	20	3	15	3	20
61 - 80%	3	15	3	15	1	7
81 - 99%	3	15	3	15	0	0
100%	9	45*	11	55*	6	40*

* Family Finance, reduce the rate

B: Equity to Long Term Ratio	St. Up Small F.		Growing S.F.		Large	
	NO.F	%	NO.F	%	NO.F	%
* Comps rec.L.T.	5	25	4	20	9	60
* Comps not Rec L.T. Loans	15	75	16	80	6	40
RANGE OF THE RATIO:						
1 - 19%	0	0	0	0	2	13
20 - 40%	0	0	0	0	1	7
41 - 60%	0	0	0	0	2	13
61 - 80%	0	0	0	0	0	0
81 - 99%	0	0	1	5	1	7
100% and over	5	25	3	15	3	20
	20	100	20	100	15	100

Regarding the comparison between small firms at inception and small growing firms, the measurement of financial gearing, based on a relation between equity to long term finance ratio, and equity to long term debt ratio (table 6.13), shows that small growing firms tend to maintain a higher equity level than small firms at inception, which contradicts the result reached under debt/equity ratio. The explanation of this contradiction is embodied in the reliance of small firms at inception on family finance, categorised as long-term finance, and reliance of small growing firms on institutional short-term finance, as a direct result of lack of long term loans. This explanation implicitly and explicitly confirms the finding that small growing firms were greater users of external source of finance and highly geared, as compared to small firms at inception.

An Overview:

The foregoing discussion suggests that the small firm at inception tends to maintain high equity to debt, as compared to the small growing firms, which exhibit a high gearing ratio. Due to nonavailability of equity finance, small growing firms not only substitute short-term debt for long term debt, but also substitute short debt for unavailable equity finance. The empirical investigation provides firm evidence that large private enterprises have higher financial gearing than small firms.

The pattern of financing and financial behaviour, and their effect on the liquidity and financial gearing of the firm questioned the earning capacity of the firm as a critical factor for the existence, survival and growth of small firms in a hostile environment in a developing economy - the Sudan - . To this point we turn our attention now.

6.4 Profitability:

The initial field work (pilot study) (see Chapter 3), posited that the small growing firm was more profitable than the small firm at inception stage of development in the Sudan. In the U.K. Ray and Hutchinson (1983) stated that:

> "In order to grow to reach a stock market flotation a small firm must be profitable".

This proposition, which emerged from the analysis of the initial field work (Research Case Studies), has been taken further, so as to establish the profitability profile and performance of small businesses in the Sudan.

6.4.A Sales to Total Assets Ratio:

In terms of sales to total assets ratio, the sample firms provide evidence that the small growing firm was more efficient in the utilisation of its assets either than the small firm at inception, or than large private enterprises. The asset turnover of the small growing firm rose from 110% in 1982 to 117% in 1984 with an average of 115.7%, compared to the small firm at inception, with an average of 69% and large private enterprises with an average of 28%. The low profitability of the small firm at inception is confirmation of the finding of Anderson (1967), that small, relatively new firms were less profitable. The degree of capacity utilisation of the small firm at inception, as measured by Sales to total assets ratio, increased steadily from 28% in 1982 to 83% in 1984. That was an indication and reflection of use of more working capital finance from external sources, which was an elaboration to the effect of age and life-cycle of th firm on pattern of financing.

TABLE 6.14

Sales to Total Assets Ratio:

	St. Up	Growing	Large
1982	28%	110%	35%
1983	96%	120%	23%
1984	83%	117%	28%
Av.	69%	115.70%	28%

The higher degree of asset utilisation (Table 6.16) showed by the small growing firm, in comparison with the small firm at inception, could possibly be explained by the accessibility of the small growing firm to the capital market. Moreover, the higher sales to total assets ratio maintained by the small growing firm was an indication of little or no excess capacity among small growing firms, which stood as a proof of the institutional long-term debt finance gap (see Chapter 7). The asset turnover of small growing firms in the Sudan was lower than that found by Bolton in the U.K., and Osaze in Nigeria. This in turn reflects the lack of working capital finance in the Sudanese financial market (See 6.2).

TABLE 6.15

Sales to Total Assets Ratio:

RANGE OF THE RATIO:	St. Up. S.F.		S.G.F		LARGE	
	NO.F	%	NO.F	%	NO.F	%
Less than 50%	8	40	2	10	6	40
50 - 99%	4	20	5	25	5	33
Less than 100%	12	60	7	35	11	73
Between 100 - 149%	3	15	6	30	2	13
150 - 200%	1	5	3	15	0	0
Over 100%	8	46	13	65	4	27
Over 200%	4	20	4	20	2	13

As far as the comparison between small and large enterprises is concerned, the study provides empirical confirmation of the established contention in accounting and finance literature, that small firms were more efficient in utilising assets and in generating high earnings than larger firms (Bolton, 1971; Wilson, 1979; Tamari , 1980 and Walker and Petty, 1978. (See Table 6.14)

There are several macro-economic explanations to this observation which challenges the large scale economies theory. The research states that large enterprises were capital intensive projects, built and established round partial or füll processing of imported raw materials and technology, whereas the small firm is constrained by low level of capitalisation and dealt with relatively local and simple technology, and local raw materials. Therefore the larger firm was more subject to macro-economic indicators. The shortage of hard currency or foreign exchange is the key constraint to obtaining adequate imported inputs. Some managers of large firms report delays of up to a year in obtaining foreign exchange through commercial banks at the official rate. Others have entirely given up trying to get foreign exchange through official channels, and now deal exclusively on the free market.

The heavy over-investment measured as an imbalance between production capacity and inputs, was cited as a main factor behind under-capitalisation of production capacity as negative economic indicators (Economic Conference KH, 1986).

A comprehensive reported conducted by the World Bank Mission on Sudan economy (1985) - " A World Bank Country Study, Sudan Pricing Policies and Structural Balances" shows that the operating cost of industrial establishments in the Sudan is higher, affecting the degree of profitability. The mission found that labour is rather expensive in the Sudan as a consequence of its scarcity in certain areas, and alternative job opportunities abroad:-

> "Such that average wages for textile workers in the Sudan were U.S.$ 0.65/hr compared to $0.40 in Egypt and $0.32 in Pakistan".

The mission went further, attributing the under-capacity utilisation of industrial establishment to the shortage of professional managers.

The economic costs of under-utilised capacity exhibited by large private firms are two-fold: First, the waste and uneconomic utilisation of resources in a country with very meagre financial resources. Second, under utilised capacity means foregone production. This empirical Investigation provides support to the World Bank Report (1985) stating that:

> "The firms that on average have the greatest potential for economically efficient production were those based on domestic raw materials, rather than imported inputs".

The research findings give an empirical justification for a development policy based on the philosophy of positive encouragement for small business, and the avoidance of investment in industries already suffering from excess capacity. (See Chapter 12).

6.4.B Retained Earning to Total Assets Ratio:

The relationship between total assets and retained profit is an indication of the degree of profitability, profit retention, as well as the degree of importance of retained profit in financing the firm. This ratio shows that small growing firms were more profitable than either small firms at inception or large private enterprises. This is an indication that the small growing firm retained a proportion of its profit so as to finance growth and expansion. The research sample shows that the retained earnings of small growing firms rose steadily from 10% in 1982, to 14% in 1984 with an average of 12%, compared to 1% of small firms at inception. This finding lends positive support to Bates (1967), that small firms rely more than large on their own savings for expansion.

A further analysis of the historical financial data shows that 50% of small growing firms maintained 10% and over of retained profit to total assets ratio, compared with 20% of small firms at inception and 7% of large firms. (See Table 6.17).

TABLE 6.16

Retained Earnings to Total Assets Ratio:

%

FIRMS YEARS	ST.UP S.F.	S.G.F	LARGE
1982	.76	10	< >
1983	2	11	.05
1984	.96	14	.33
Average	1.24	12	.13

TABLE 6.17

Range of R.E. to T.A. Ratio:

	ST. UP S.F.		S.G.F		LARGE	
	NO.F	%	NO.F	%	NO.F	%
Negative - No R.E.	6	30	2	10	6	40
Less than 10%	10	50	8	40	8	53
10 - 20%	3	15	7	35	1	7
21 - 30%	0	0	2	10	0	0
31 - 40%	1	5	1	5	0	0

However, the earnings retention of the small, growing firm in the Sudan is low by comparison with the small growing firm in Nigeria, with 23.47% for fast growing firms, and 24.25% for slow growing firms, as well as Bolton (1971) (20-28%) and Bath Supergrowth firms (21-27%). This could be explained by the low level of capacity utilisation maintained by the small, growing firm in the Sudan, as compared to the U.K. and Nigeria, as a result of shortage and lack of satisfactory working capital finance. The low level of profit retention maintained by large firms was not due to profit distribution but rather to accumulated losses. This sort of profile was explained by respondent management of large enterprises as being the result of shortage of working capital finance and other inputs, reflected in the fact that most large firms were working at less than 30% capacity.

6.4.C Profit Before Interest and Tax To Total Assets Ratio:

This measure provides confirmation of the previous findings that the small growing firm was more profitable than other firms, with an average of 7%. To figure out this ratio, the profit was adjusted by adding directors' remunerations to the reported profit.

TABLE 6.18

Net Profit BIT to Total Assets Ratio:

%

YEAR	St.Up	S.G.F	LARGE
1982	2%	8%	<13>%
1983	3%	6%	<9>%
1984	2%	8%	<16>%
Av.	2.3%	7.33%	<12.67>%

6.4.D Profit Margin:

This indicator provides the interesting point that there was no significant differences between small firms at inception and small growing firms in generating operating profits, with an average of 4.3% and 6.3% respectively. A further analysis, of aggregate accounting data provides the surprising result that the small firm at inception was doing better than the small growing firm in generating income. The research sample shows that 60% of starting up small firms maintained 10 to 49% profit margin ratio, compared with 35% of small growing firms sampled.

This contradictory result could possibly be explained by the fact that most small firms at inception were built round local raw materials, whereas most of growing firms depend partially, or fully, on imported raw materials as a part of the growth and development

Fig 6–9: Retained earings to total assets ratio

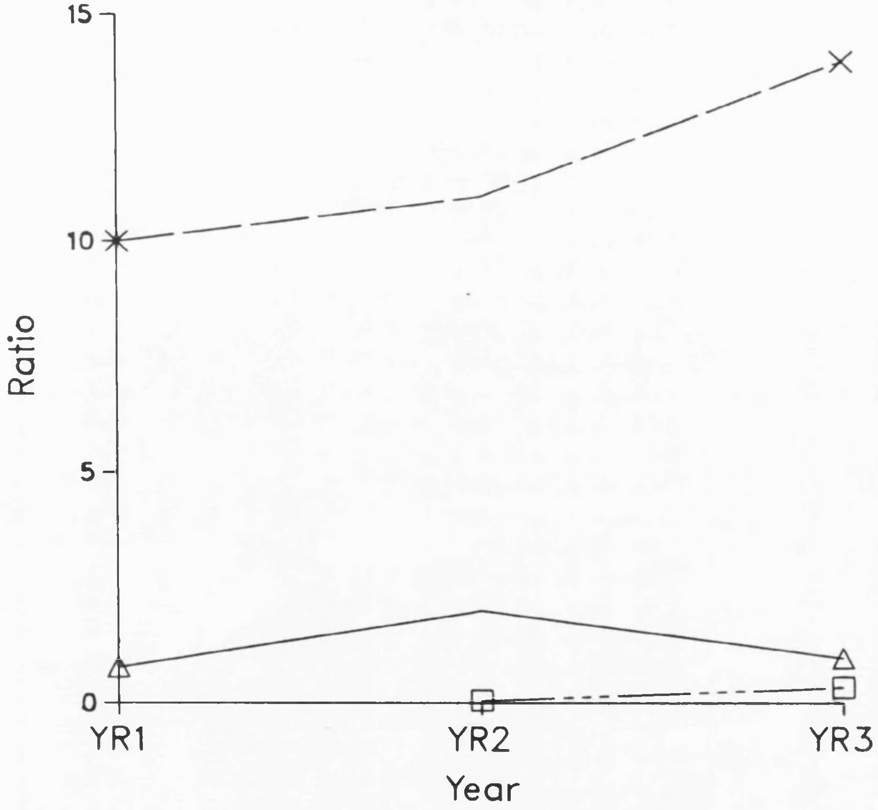
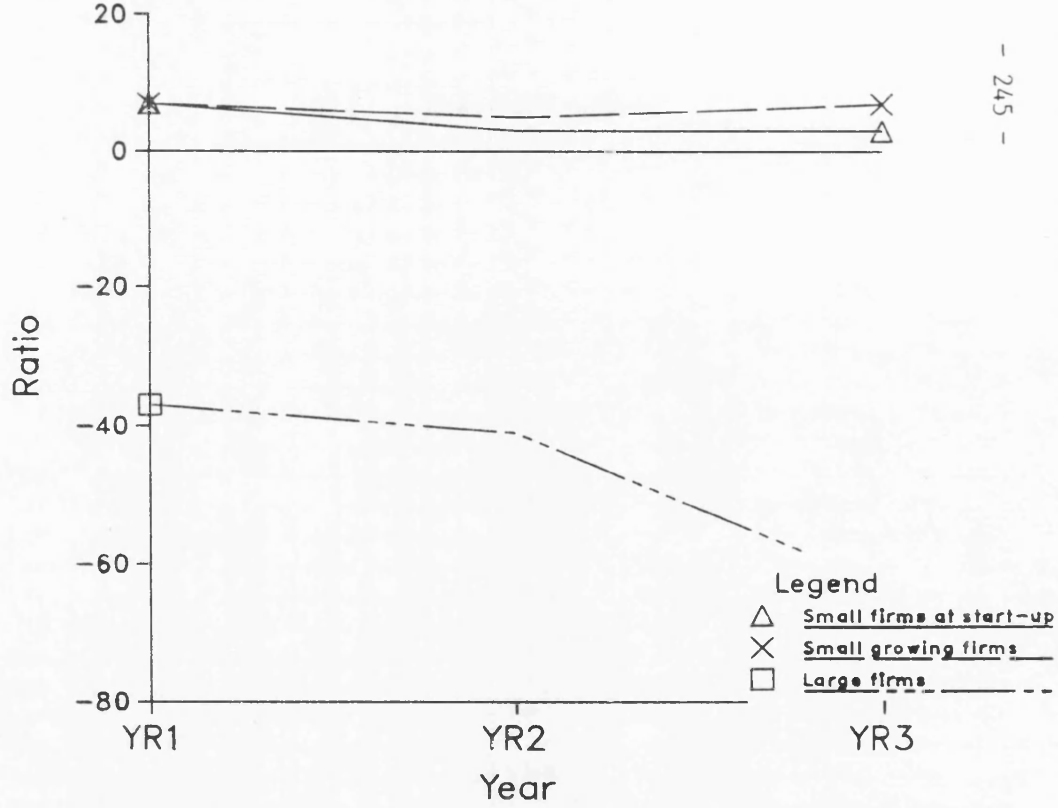


Fig 6–10: Profit margin



process. This causation introduced macro-economic factor.
The other explanation was that small firms usually started very small, and operations expenses were low, compared to small growing firms.
The empirical work provides evidence that the capital needed to finance assets in the early eighties was more than that needed in the seventies and sixties (5.1). This observation was an explanation of high operating profit of small firms at inception, low retained earnings to total assets and low level of asset utilisation, compared to small growing firms. (See table 6.20).

TABLE 6.19

N.P. + Directors' Remuneration as a % of Sales:

	St.Up S.F.		S.G.F.		LARGE	
	NO.F	%	NO.F	%	NO.F	%
Negative	0	0	0	0	8	53
Less than 10%	8	40	13	65	7	47
10 - 19%	5	25	7	35	0	0
20 - 29%	3	15	0	0	0	0
30 - 39%	2	10	0	0	0	0
40 - 49%	2	10	0	0	0	0

An Overview:

The foregoing discussion, based on the selected profitability indicators, indicates that the small growing firm was more efficient and profitable than either the small firm at inception or large private enterprises. The higher profitability of the small growing firm was a vehicle to overcome its illiquidity profile, and to survive even with its high level of financial gearing and risk. Based on asset utilisation and the degree of capacity utilisation, the empirical investigation questioned the traditional economic theory with its emphasis on large scale economies.

6.5 Degree of Self-Financing:

The survey posited that small firms face formidable difficulties in raising institutional finance, and particularly long-term financial facilities. (See chapter 5; 5.1.4 and Chapter 7). It was in the field of profit retention and use of retained profit as an internal source of finance, that the greatest differences were observed between small firms at inception, small growing firms and large private enterprises.

In measuring the degree of self-financing, Bates'(1964) measurement, based on the concept of cash-flow model was used (See part 6.1.2.D). Based on cash-flow to material investment in gross fixed assets plus stocks ratio; (Ratio No. 1). The sample shows that the degree of self-financing in small growing firms was higher than in small firms at inception and large firms averaging 22%, 8.5% and 8% respectively (Table 6.20).

A further analysis of the financial data shows that 65% of small firms at inception exhibited less than 10% and 80% of large firms, compared to 85% of small growing firms maintained 10% and over (Ratio NO. 1). This observation indicates that small growing firms rely on retained profit for expansion and development to a greater extent than their large enterprise counterparts. This profile questioned the degree of adequacy of retained profit to meet growth demand.

TABLE 6.20

Degree Of Self-Financing Based on the Concept of Cash Flow:

	St. Up Small Firm	Growing Small Firm	Large Firm
1. Cash Flow to Material Inv in G.F.A. + Stocks Ratio	8.5%	22%	8%
2. Cash Flow to Material Inv in G.F.A. + Stocks + N.T.C Ratio	8.83%	23%	8.4%

Cash Flow = Retained Profit and Depreciation

N.T.C. = T.D. - T.C. and Depreciation use of Funch)

RATIO NO. 1

CashFlow to G.F.A. + Stocks

Ratio:

Range of the Ratio:	St. Up S.F.		Growing		Large	
	NO.F	%	NO.F	%	NO.F	%
. Less than 10%	13	65	3	15	12	80
. 10 - 19%	3	15	8	40	3	20
. 20 - 29%	2	10	3	15	-	-
. 30 - 39%	1	5	4	20	-	-
. 40 - 49%	1	5	1	5	-	-
. 50 - 59%	-	-	-	-	-	-
. 60 - 69%	-	-	-	-	-	-
. 70 - 79%	-	-	1	5	-	-
. 80 - 89%	-	-	-	-	-	-
. 90 - 99%	-	-	-	-	-	-
. 100% and over	-	-	-	-	-	-
	20	100	20	100	15	100

RATIO NO. 2

Cash Flow to Material Inv in G.F.A + Stocks + N.T.C.

Range of the Ratio:	St. Up. S.F.		G.R.S.F.		LARGE	
	NO.F	%	NO.F	%	NO.F	%
. Less than 10%	13	65	2	10	11	73
. 10 - 19%	2	10	9	45	3	20
. 20 - 29%	3	15	2	10	-	-
. 30 - 39%	1	5	4	20	-	-
. 40 - 49%	1	5	2	10	-	-
. 50 - 59%	-	-	-	-	1	7
. 60 - 69%	-	-	-	-	-	-
. 70 - 79%	-	-	1	5	-	-
. 80 - 89%	-	-	-	-	-	-
. 90 - 99%	-	-	-	-	-	-
. 100% and over	-	-	-	-	-	-
	20	100	20	100	15	100

RATIO NO. 3

Gross Saving to Material Investment in Long Term Assets:

	Inception	Growing	Large
Average	12%	30%	10%

Range Of The Ratio:

	Start Up		Growing		Large	
	NO.F	%	NO.F	%	NO.F	%
Less than 10%	4	20	0	0	11	73
10 - 19%	9	45	6	30	3	20
20 - 29%	2	10	5	25		
30 - 39%	4	20	1	5		
40 - 49%	-	-	2	10		
50 - 59%	1	5	2	10	0	0
60 - 69%	0	0	2	10	0	0
70 - 79%	0	0	1	5	0	0
80 - 89%	0	0	0	0	0	0
90 - 99%	0	0	0	0	0	0
100% and over	0	0	0	0	0	0

The research has proved the inadequacy of this type of internal source of finance (see Chapter 5; 5.21). The lower degree of self-financing exhibited by larger firms was compensated by bank borrowing on both short and long-term nature (See Chapter 5).

The second criterion (Ratio 2) for the degree of self-financing provides confirmation of the result under Ratio 1. (See table 6.20). Based on the concept that cash flow, or gross company savings, equate to net profit plus depreciation, the sample provides evidence that the degree of self-financing was higher in small firms (11, 12%), (12%), (13%) than in large private enterprises, exhibiting a negative ratio (≤11≥%).

The higher degree of self-financing maintained by small growing firms in comparison with other firms, questioned the degree of growth.

Bates (1964) argues that:

> "...It is possible that a high degree of self-financing indicates a cautious and slowly developing enterprise".

The relatively higher degree of profit retention maintained by the small growing firm was an indication of the success of the management of small firms, in striking a balance between and reconciling the demand of the family and business needs. This sort of financial and investment behaviour in the light of capital shortage posited that the growth question is not confined only to the availability of finance, but rather to both finance and management. The latter factor will be discussed as a seperate issue in Chapter 10.
Bates (1964) observed that:

> "Small firm expansion must be much more closely determined by the availability of internal funds".

6.6 Conclusions

The empirical findings of this investigation have been stated at various points throughout the preceding parts of this Chapter (6.2 - 6.5). It may now be possible to combine and summarise the main conclusions of this part of the study. The empirical findings have theoretical and policy implications, which are of especial significance to banks and other bodies willing to provide finance to small business, and potential investors in small business. This exercise, based on ratio analysis, provides confirmation of the second research hypothesis.

The main conclusions and their theoretical and policy implications, may be summarised as follows:

1. As a measure of the degree of capitalisation, the small firm at inceptions shows a high ratio of equity to total assets. This high ratio, coupled with lack of equity finance, is an indication of the under-capitalisation of the small firm at the inception stage of development. While debt is a viable source, under-capitalisation results in a low volume of borrowing against security, unfavourable loan terms, and a high cost of borrowing. This study provides evidence that under-capitalisation is one of the financial characteristics of small firms at inception, a financial pitfall, which might lead small businesses to failure and death. This finding elaborates the traditional theory and suggests its applicability to the financial profile scene in developing economies like the Sudan.

2. In terms of working capital management, starting-up small firms tend to exhibit more liquidity than small, growing firms. The study supports the contention that growth causes a liquidity problem. Large private enterprises, on the other hand, appear to have less liquidity than small firms at inception and exhibit liquidity similar to small growing firms. This finding provides an answer to some controversial issues in finance and accounting literature.

3. As regards to the financial risk, the survey shows that the small firm at inception tends to be low-geared, whereas the small but growing firm is highly-geared. The empirical investigation provides firm evidence that large private enterprises have higher financial gearing than small firms.

4. As far as profitability is concerned, small growing firms are more efficient in utilisation of their assets than small firms at inception. The empirical investigation challenges the large-scale economics theory, providing evidence that small firms are more efficient in utilising their capacity, and in generating earnings, than large private enterprises. This finding lends support to Bates's (1967); Walker and Petty's (1978) and Wilson's (1979) inferences in developed economies. At the policy implication level, this observation offers a strong documented case for the adoption of a national economic development policy, based on the philosophy that the small firm is the best and most appropriate vehicle for industrial development in a poor country, with a depressed economy, based on donations and heavy borrowing. As a national issue, this strategy could restore the economic independence of the country (See Chapter 12).

5. The degree of self-financing based on cash flow model, is higher is higher in small growing firms than in small firms at inception. With respect to a comparison between small and large firms, this study provides evidence that the degree of self-financing is higher in small firms than in their large private enterprise counterparts.

A concluding point for this section is that the financial profile exercise provides confirmation of the effect of the life-cycle, growth and size of financial behaviour, and financial structure of the firm. Thus, there appears to be a marked dissimilarity between the financial profile of small firms at inception, small growing firms and large private enterprises in developing economies.

It is worth mentioning that care should be taken in the interpretation of these results, being based on poor accounting information, a distinctive feature of developing countries (Parker, 1984), particularly, applicable to small businesses. The main limitation of this study analysis, is its basis on a very short-time series (3 years) and in aggregated accounting records. Wilson (1979) argues that:

> "There is very great diversity in the financing patterns and financial performance of small companies. The degree of variation in the usual financial ratios is much greater for small companies than for large. Consequently average figures for small companies as a whole can sometimes be very misleading and must be treated with caution".

CHAPTER SEVEN

THE SMALL BUSINESS FINANCING GAP

The preceding parts of this study (chapters 5 and 6) have described the sources of finance available to small business, and their relative importance. The in-depth analysis of financial facilities available to small business at inception, to small, growing firms and to large private enterprises, identified the symptoms of the financial differences and dissimilarities.

The financing of small companies has always been a problem. (Peacock, 1977). Adam Smith in 1922 complained that:-

> "The banks (the traders and undertakers seem to have thought) could extend their credits to whatever sum might be wanted, without incurring any other expense besides that of a few reams of paper. They complained of the contracted views and dastardly spirit of the directors of these banks, which did not, they said, extend their credit in proportion to the extension of that trade of the country."

The shortage of finance has persistently proved a formidable constraint in the establishment and promotion of small business, in developed countries and developing economies alike. The debate concerning the finance gap has a history going back to the 'Macmillian Report' of (1931) in the U.K. In the U.S., a nationwide survey conducted by the Department of Commerce in 1934 disclosed that long term funds could not be obtained from any source by almost half of all small manufacturers needing such credit. Bird and Juttner (1974), Peacock (1974) and Osaze (1981) had proved the existence of the finance gap in Australia and Nigeria respectively (see chapter 2: 2.1.2)

There was belief amongst academics and professionals in the Sudan, that there was a shortage of finance, (National Economic Summit, March 1986), but there was no empirical work done on the identification and measurement of the financial difficulties and problems. The purpose of this chapter is to give a better understanding of some of the financing problems that small businessmen face, and to provide an empirical answer to the question whether: the small business is at a disadvantage in obtaining adequate financing, or in other words, does a "small business financing gap" exist and, if so, in what form. (Hypothesis - 3, see chapter 3).

To identify the finance gap symptom, the analysis was based on multi-dimentional measurements (see chapter 4 - Research Methodology). To examine the finance gap from the demand side perspecive, the analysis was based on both accounting and non-accounting data. Thus, the uniqueness of this approach of analysis is embodied in the fact that findings were not merely an interpretation of historical accounting data, but also were based on qualitative data.

Based on the identified dimensions, along the way to establish the relevant hypothesis, andthe emerge theoretical and policy implications, the chapter is organised as follows: Part I identifies the long term debt finance gap. Parts II and III examines the finance gap based on capital shortage and cost of borrowing respectively. Analysis of the process of raising funds as perceived by entrepreneurs is presented in-depth in Part VI. The concluding section summarises the main investigation findings, and the theoretical and policy implications that emerge from this part of the study.

7.1. LONG TERM DEBT FINANCING GAP

Ironically, the Macmillian Report is probably remembered best for one short paragraph in which it pointed to the existence of what has come to be known as The Macmillian Gap: "It has been represented to

> us that great difficulty is experienced by the smaller and medium-sized businesses in raising the capital which they from time to time require ...." (Bates, 1964).

Long term debt finance as a viable source provides an opportunity to to small business to avoid under-capitalisation at the inception stage of development and for expansion and growth. Grafer (1968) articulated that: "The type of financing most often unavailable on reasonable terms to small business is the type normally required for significant, permanent expansion."

The empirical investigations provides conclusive evidence that small firms, regardless of stage of development are at a considerable disadvantage in obtaining long term finance from banks and other financial bodies, as compared to large private enterprises. The sample firms show that large firms were large users of institutional long term loans, either as initial long term loans or overdraft facilities converted into long term loans (49%), in financing business operations, than small firms at inception (5%) and small growing firms (10%) (see chapter 5 for more analysis - 5.2 and chapter 6). The survey shows that the long term debt incurred by an average large firm equates to 73% of long term financing, compared to 8% and 16%, maintained by small firms at inception, and small growing firms respectively.

Table No 7.1

Proportion of Firms Incurring Long Term Debt

	Small firm At Inception		Smallgrowing Firms		Large Firms	
	No F	%	No F	%	No F	%
Companies obtained long term loans	6	30	8	40	9	60
Companies did not obtain L.T.D.	13	65	12	60	6	40
Companies did not apply for	5	25	3	15	3	20

Table 7.1 based on the proportion of firms receiving long term loans

gives an indication that small business is at a disadvantage in receiving long term loans (65%) , compared to their large private counterparts, who enjoyed 60% institutional long term financial facilities.

The empirical investigation states the fact that the Sudanese Industrial Bank (SIB) was the main supplier of long term loans for small business at inception stage (20%), whereas public and private commercial banks were the main providers of institutional long term financing to large enterprises (see Chaper 5, 5.26.T.) This finding challenged the contention that the commercial banks, as a traditional source of finance, were not considered a prime source of long term funds, since their raison d'etre was to supply short term financing. (Grafer op.ci.) This observation provides evidence of small business discrimination in the capital market. The possible explanation of commercial banks' behaviour, was the security required by banks against long term debt, unlikely to be satisfied by typical small business. (See Chaper 8 for more discussion).

The unavailability of institutional long term financial facilities had an adverse effect on growth and expansion policy of small businesses, as reported by entrepreneurs and managements of small businesses. 55 percent of small businesses at inception, reported that they had not had any policy for expansion, as a result of lack of institutional long term debt finance. The small growing firm sample shows that 60% relied heavily on retained profits in financing long term assets, compared with 60% of large firms, who received a great volume of finance from commercial banks on a long term basis.

The survey shows that 53% of large firms received fixed assets finance and 87% received working capital finance on a continuous basis in the expansion process. On the other hand, the low level of retained earnings (12%) maintained by an average small growing firm, was an indication of the degree of inadequacy of retained earnings in meeting growth and expansion needs. That inadequacy, in connection with unavailability of institutional long term financial facilities, is an indication of the financial difficulties small business experienced in meeting start-up capital needs, and maintaining and sustaining growth.

As far as the reasons for unavailability of institutional long term debt for small business is concerned, 58% of small growing firms sample reported that banks in the public and private sectors did not finance fixed assets needs for the establishment or expansion of small business. Others argue that the banking policy was to finance at short term against stringent security and high guarantees. Most entrepreneurs of small firms (85%) reported that the banking system, based on Islamic financing mechanism, and the credit squeeze system, in conjunction with banks' management and bankers' attitudes towards small business financing were the main reason for the lack of long term financial facilities. Thus, the demand side attributed the existence of a Macmillian gap to the capital market mechanism and bankers' attitudes. This finding will be cross-examined in chapter (8) focusing on the supply side of financing.

The empirical investigation provides an interesting point that the use of long term debt was influenced by the attitude, perception and belief of the entrepreneur. The survey shows that 25% of small firms at inception had the convinction that bank financing should be confined to working capital finance, so as to avoid problems of ownership which might arise from financing under Musharaka Instrument.

This observation is consistent with the finding of Bates (1964) in U.K. and Beckhard (1975) in U.S., and provides support to behavioural economists views on the relationship between the choice of finance, ownership, and control of firms (Davis and Pointon, 1984).

The foregoing discussion, based on an analogy between small and large private enterprises with respect to availability of institutional long term finance, provides an empirical proof of the existence of Macmillian Gap in the Sudan.

7.2

IDENTIFICATION OF FINANCE GAP BASED ON CAPITAL SHORTAGE DIMENSION

Gravin (1970) argues that the finance gap would exist if the marginal return on investment available to small businesses exceeded their marginal cost of capital. The empirical investigation shows that small, growing firms were more efficient in the utilisation of assets than starting-up firms with an average of 115 - 70% and 60% respectively. As has been noted earlier in this study, (chapter 6, 6.4) the low degree of capacity - utilisation maintained by small firms at inception stage of development is an indication of lack of working-capital finance, provided that small firms at inception were more efficient in generating income measured by profit-margin ratio (see Chapter 6, 6.4). This profile is a good indication of difficulties small business at inception experienced in raising institutional funds.

Table 7.2

DEGREE OF CAPACITY UTILISATION
AND LONG TERM LOANS - SMALL GROWING FIRM AND LARGE

	Small Growing Firms				Large Firms			
	1982	1983	1984	AV	1982	1983	1984	AV
Capacity utilisation	110	120	117	116	35	23	26	28
Long term loans	171	209	190		8546	13830	16293	
Increase in L.T.L.		22%	(9%)			62%	18%	
% of Ext Debt Finance	23%	23%	14%	20%	55%	62%	64%	60%

Table (7.2) shows that the degree of capacity utilisation was high in small growing firms, with very low institutional long term financial facilities, as compared to large private enterprises, with low degree of capacity utilisation and a high percentage of long term financial facilities portions. This finding was an indication of relative non-excess capacity and shortage of long term facilities experienced by small growing firms, which, in turn gives empirical evidence of a small business financing gap. Harris (1967) argues that:-

> "If no significant economies exist, or all firms are operating optimally, a finance gap would be reflected by a relative high degree of asset utilisation, and high profitability of existing assets."

Based on the measurement and identification of small business financing gap on availability/unavailability of funds - short and long term - the research sample provides evidence that the small firm relies on internal sources of finance, whereas large private enterprise were more debt orientated (see table 5-20 and 5-21 Chapter 5).

Table 7.3

AVAILABILITY OF EXTERNAL FINANCE
BASED ON OPINION OF ENTREPRENEURS AND MANAGEMENT OF THE RESEARCH SAMPLES

	St. Up S.F.		S.G.F.		S.F. Sample		Large F.	
	No F	%	No.F	%	No.F	%	No.F	%
Companies lacked external finance	19	95	15	75	34	85	14	93
Companies did not lack external finance	1	5	5	25	6	15	1	7
Fund needed to Finance, but were not Available:-								
Fixed Assets	12	60	12	60	24	60	4	27
Working capital	18	90	13	65	31	78	14	93
Fixed assets and W.C.	11	55	10	50	21	53	4	27
Promotional purposes	3	15	4	20	7	18	3	20
Type of Finance Needed But not Available:-								
Short term finance	16	80	13	65	29	73	14	93
Long term finance	12	60	12	60	24	60	4	27
Equity finance	0	0	0	0	0	0	0	0
Continuous working capital finance	15	75	13	65	28	70	14	93

Table (7.3) shows that there was a similarity between small and large firms, with regard to unavailability of working capital finance, in relation to the production capacity. Most of the respondent entrepreneurs and managers (82%) complained of unavailability of sufficient working capital finance. According to the World Bank Report (1985) the used production capacity of industrial establishment in the Sudan ranges between 26-30%. It is in the field of long term loans and fixed assets financing that a clear difference is observed between small and large private enterprises. The table, based wholly on the opinion of entrepreneurs, provides evidence that small firms are at a considerable disadvantage in obtaining institutional finance. The identified small business financing difficulties were seen as having two consequences; a shortage of initial capital for a new start-up, and a deficiency in the provision of development capital to finance growth and expansion of the established enterprise.

Table (7.3) presents an interesting point that entrepreneurs' sample did not complain about non-existence of equity finance. This profile and financial behaviour, as has been stated before, (Chapter 6), is attributable to social and psychological factors. Bates (1967) in U.K. observed that:-

> "Since most private companies are also family firms, they do not find it particularly easy to raise long term funds outside their immediate field of influence. Another important factor is the fear that the introduction of outside capital might dilute or threaten the existing owners' control of the business."

The empirical investigation provides evidence that the small firm equity gap in the Sudan is divisible into technical aspects measured by the non-existence of a formalised stock market, and social and psychological factors (see Chapter 6, 6-3).

The preceding parts of the chapter (7.1 and 7.2) provide material and empirical evidence that there was a small business financing gap in the Sudan expressed as small business concerns difficulties in obtaining the volume of long term loan and working capital finance for start-up and adequate growth. The vital question to be raised in this context is whether where such capital is available to small businesses, is it at a disadvantage because it must pay a higher interest rate? To this point we direct attention now:-

7.3.

IDENTIFICATION OF SMALL BUSINESS FINANCING GAP BASED ON COST OF BORROWING CONCEPT

The cost disparity between small and large businesses was used by scholars as a surrogate for the identification of the finance gap. (See Chapter 4, 4.1.B.) Brigham and Smith (1970) argue that:

> "Material differences in financial costs exist between small and large corporations in that small firms pay a higher cost for debt financing than do large firms."

Table 7.4.

COST OF BORROWING BASED ON OPINION OF ENTREPRENEURS

	St S.F.		S.G.F.		S.F.S.		Large	
	No.F	%	No.F	%	No.F	%	No.F	%
Too high	17	85	15	75	32	80	14	93
Reasonable	3	15	5	25	8	20	1	7
Too low	0	0	0	0	0	0	0	0

Table 7.4 shows that there was a general agreement between small businesses and large firms that the cost of borrowing was too high for very short term finance, under the interest based system and more so under the Islamic financing mechanism. The owner of one small firm said that

> "The cost of finance was very high, and Islamic financing instruments with a minimum of 24% per annum discourage industry. Under these circumstances, no industry, whatever the size, could be established and sustained from bank borrowing. The best strategy for a healthy company is to depend on, and to be established from owners' resources and to resort to banks for costly working capital finance."

Based on interest rate, or "Hamish El Murabaha" under Islamic financing, as a measurement of the cost of borrowing, the survey shows that there was no cost disparity between small businesses and large ones, with regard to minimum rate decided by the Central Bank, and the minimum charge decided by the management of /

continued next page

the commercial bank in question. This unification was created by the fact that there was no formal or informal definition of what constitutes small and large enterprises in the banking system, and the financial policy-making level (Central Bank). The cost of bank borrowing under Islamic financing instruments (Murabaha and Musharaka), above the minimum rate decided by bank management was based on bargaining. The Central Bank has no influence on the determination of the maximum cost of borrowing. Thus, the determination of the cost of bank borrowing depends partially on the bank's opinion, the profitability of the transaction, the security provided by the clients, as well as the ability of the applicant to present and to defend his case before bank officials. Regarding the latter factor, Bolton (1971) observed in the U.K. that small firms tend to be unskilled in presenting a financial case.

The negotiation skill of the applicant as well as security formula as determinant factors of the cost of bank borrowing (above minimum), put small firms and particularly starting-up small firms, with inexperienced entrepreneurs, at a considerable disadvantage in obtaining the needed volume of finance on reasonable terms. This observation introduces the concept of an entrepreneur as an individual, measured into negotiation ability and capability to present and defend his case before financiers and potential investors. The director of The Investment Section - Tadamon Islamic Bank commented that:;

> "The cost of lending above the minimum charge is based entirely on bargaining and negotiation between the bank and the client, under Marabaha as well as Musharaka."

Awad.H (1985) argues that the financing decision as well as the cost of finance under Islamic banking system is based on personal basis and bargaining, because of the issue of delay and prohibition of delay penalty under Islamic principle and Sharia code.

In their article "Cost of Capital to the Small Firm" Eugne F Brigham and Keith V Smith (1970) state that:

> "Loans to small firms are typically smaller than loans to larger firms, and since there are fixed costs to making and servicing any loan, smaller firms must necessarily pay higher rates to cover such fixed costs."

Based on 154 loans received by the research sample from commercial and development financial institutions in the last five years (1980 - 1985) (See Chapter 5, 5.1.4.3, figure No 5.2), the analysis shows that the volume of loan received by a small firm at inception and a small growing firm, was very low, compared to the average received by large enterprises. This observation extends support to Brigham and Smith, and provides evidence of the cost disparity between small and large firms, measured as fixed cost charge.

Table 7.5

COMMERCIAL BANKS' INTEREST RATE 'SUDAN'

	1978	1981	1983	1985
Discounts of Bills of Exchange	13	17	20	24
Advances against Bill of Exchange	13	17.50	20	24
Advances to Industrial borrowers	10-14.5%			18-24
Overdraft and other advances		14.5-18	17.21	18-24

Minimum rate 1983 - onward (Islamisation)
Source: World Bank Report, Sudan, Ministry of Finance

In order to reduce the rate of credit expansion, and to control the growth of money supply in the financial market, the Central Bank, implemented a set of monetary and credit measures in the years 1983-1986.

Within these measures, the minimum lending rate on banking facilities was 18% for industry and export, and 21% for trading. Under the credit squeeze system, commercial banks raised the minimum rate from (18-21%) to 2.'% per month for Murabaha finance and 30% per annum under Musharaka finance.

Table (7.5) shows that the cost of bank borrowing in the Sudan was too high, with a steady increase in 1978, from 14.5% to 24% in 1985, a 66% jump. The higher cost of bank borrowing could be seen in comparison with other developing countries; Nigeria 6%, Ghana 9%, and Sierra Leone 8% and some developed countries, U.S. 7%, U.K. 15.3% and Canada 9% (1978).

The low level of money supply, under the credit squeeze system, accompanied by higher cost of borrowing, put small firms with low security and high risk at disadvantage in obtaining institutional funds, compared to large ones. Galbraith (1957) stated that:

> "Monetary policy discriminates against the smaller, less monopolistic firms."

Singth and Whittington (1968) argue that in the period of 'squeeze', the un-quoted sector might bear the brunt of the monetary restraint. the effect of ceiling and credit squeeze on financing, is a separate issue and will be discussed in depth in Chapter (8) on examination of the financial abilities of banks in the Sudan.

7.4

OVERALL VIEW

The foregoing discussion (7.1-7.3) provides empirical evidence that small businesses experience formidable difficulties in raising institutional short and long term finance as compared to their large private enterprise counterparts. Thus, there is, 'a Sudanese Macmillion gap'. This finding provides positive support to the research hypothesis, and is consistent with the finding of Bosa (1978) in Yougonda, Besong (1978) in Cameroun and Osaze (1981) in Nigeria, adding the dimension of identifying the finance gap on multi-dimensional measurement approach. To idendify the finance gap from the demand-side perspective, a vital question is to be raised as to why the financing gap exists, and how small businessmen perceived the reasons and causes of this existence. To this point, we turn attention now.

7.5 WHY FINANCING GAP EXISTS

Prudent investors, and financiers, being risk avertors and security concious, generally try to avoid situations where there is little probability of a large gain and a large probability of a loss, with payment default and failure. This is the main reason why financial institutions and investors, are reluctant to finance and invest in small businesses. Grafer (1968) added that:-

> "....a gap is created by normal operation of the capital market, in which allocations are guided by expected rate of return appropriately discounted for risk. The additional risk of financing small business is caused by some of its common characteristics."

Tables (7.6) and (7.7) illustrate that the banking institutions satisfy borrower demands neither for long term financial facilities, nor for short term loans. The financial problems reported by respondent entrepreneurs give substantial evidence of a small business financing gap.

The empirical investigation shows that small business financing is adversely affected by the Central Bank financial and priority policy. The majority of small businesses (80%) reported that the financial policy of the Central Bank, as well as the credit squeeze system, were the main reasons given by financial institutions for refusing to extend credit. Small growing firms put more emphasis on shortage of hard currency for financing raw materials and other working capital items.

The owners and managers of small businesses provide confirmation of the existence of a Radcliff gap in the Sudan, attributing the finance gap to banking policy, banks' management, and bankers' attitude towards small business financing. 93% of small businesses reported that bankers were not sympathetic towards small business (table 7.8). On institutional basis, the respondent entrepreneurs attributed the financial difficulties of small business to an institutional gap, in the sense that there was no body in charge of providing finance to small business in the Sudan. This led to the implementation of Radcliff (1959) statement on small business financing in ULK.-

"We think that there is room for some further improvements", along the way, to eliminate or close the identified small business financing gap.

Table 7.6

RANKING OF REASONS GIVEN BY FINANCIAL INSTITUTIONS FOR REFUSING TO EXTEND CREDIT AS REPORTED BY ENTREPRENEURS SAMPLE

	St S.F.		S G.F.		S.F. Sample		Large Firm	
	No F	%	No F	%	No F	%	No F	%
1. Credit squeeze system	16	80	19	95	35	88	13	87
2. Priority policy of the Central Bank	12	60	13	65	25	63	7	47
3. Shortage of Hard currency	7	35	13	65	20	50	15	100
4. Banks do not finance F.A. as policy	6	30	4	20	10	25	3	20
5. Banks do not provide L.T.L.	6	30	4	20	10	25	1	7
6. Bank of Sudan Financial decision	0	0	7	35	7	18	6	40
7. Government regulation on financing	0	0	2	10	2	5	3	20
8. Security and guarantee unsatisfactory	8	40	0	0	8	20	0	0

Table 7.7 FINANCIAL PROBLEMS AS REPORTED BY SMALL BUSINESS SAMPLE

	ST UP S.F		S.G.F.		S.F.'Av'	
	No.F	%	No.F	%	No.F	%
1. Unavailability of long-term loans	12	60	15	75	27	68
2. Unavailability of short-term loans	14	70	11	55	25	63
3. Lack of fin. for expansion - FA	-	-	13	65	13	33
4. Lack of fin. for expansion - WC	-	-	9	45	9	23
5. Terms of Financing	5	25	3	15	8	20
6. Timing of Finance	10	50	5	25	15	38
7. Cost of Finance was very high	17	85	14	70	31	78
8. Banks want too much collateral	12	60	8	40	20	50
9. Insufficient information about finance alternatives	6	30	8	40	14	35
10. Too low credit limits	-	-	6	30	6	15
11. Approval process of financing	12	60	8	40	20	50
12. Discontinuity of financing	8	40	3	15	11	28
13. Credit squeeze system	16	80	15	75	31	78
14. Shortage of hard currency	4	20	12	60	16	40
15. Bank of Sudan policy	12	60	9	45	21	53
16. Lack of trust in Bank of Sudan	-	-	6	30	6	15
17. Banks' mgr and bankers understanding to industry problems	-	-	6	30	6	15
18. Lack of source of initial capital	8	40	-	-	8	20
19. Financial power of Branch managers	2	10	4	20	6	15
20. Islamic finance is very short	13	65	12	60	25	63
21. Islamic financing is unsuitable for industry	-	-	7	35	7	18
22. Political implications in financing decision	12	60	8	40	20	50
23. Islamic financing is inflexible	-	-	9	45	9	23
24. Banks give priority to large firms	10	50	8	40	18	45
25. Banks provide finance only under higher security	13	65	8	40	21	53
26. Banks are profit orientated	7	35	5	25	12	30

Table (7-8)

ATTITUDE OF BANKERS AND BANKS TOWARDS SMALL BUSINESS FINANCING AS REPORTED BY ENTREPRENEURS

	Start up SF				S Firm Av	
	No F	%	No F	%	No F	%
Mgrs were sympathetic	0	0	0	0	0	0
Mgrs were not sympathetic	20	100	17	85	37	93
Have no opinion	0	0	3	15	3	7
	20	100	20	100	40	100
Banks fin against security	12	60	15	75	27	68
Banks object to financing small business	10	50	4	20	14	35
Banks financing directed to large business and bigprojects	11	55	7	35	18	45
The negative attitude of bankers derived from lack of policy	4	20	-	-	4	10
Financing is based on personal channel and relation	5	25	6	30	11	28
Banks look for profit in trading	6	30	8	40	14	35
Small businesses face ignorance in banking	4	20	7	35	11	28
Financing is based on names	6	30	4	20	10	25
Banks do not wish to finance small businesses because of security						
Banks are trading orientated	5	25	2	10	7	18

The foregoing discussion, based on entrepreneurs opinion (tables 7.6 - 7.8) suggests that the finance gap is created by the capital market. This view will be subject to cross-examination in the next chapter, focussing on the financial institutions' behaviour towards small business_supply - side_perspective. The next logical and pertinent question to be raised is to what extent the identified finance gap could be attributed to entrepreneur and small business practice in the fund-raising process. To this point we turn now.

7.6 PROCESS OF RAISING FUNDS

It was established in the financing of small business literature, that financing affects and is affected by the financial control systems maintained by small business. Radcliff (1959) pointed out that there was a communication gap. Bolton (1971) went further, arguing that there was an information gap, rather than a finance gap (see Chapter 2.) Ray and Hutchinson (1983) argue that ".....before a firm can successfully raise finance, it is necessary for it to identify the sources available and to present, where necessary, a case to potential lenders."

The objective of this part of the chapter is to examine the raising of funds approach from the demand-side perspective, by questioning the responsibility for financing within small firms, the level of documentation required by banks in providing funds, and the degree of importance as perceived by small businesses, and finally, to assess the entrepreneur's success in raising finance and obtaining financial advice.

Regarding the responsibility for the financing function the research sample shows that the founder, the entrepreneur and family members on formal and informal level, were predominant in small business at inception and growing stage of development.

The survey shows that 98% of small firms had no financial specialists, compared to 67% of large private enterprises with financial specialists. Most entrepreneurs of small businesses (70%) argued that financing is a confidential issue, based on the secrecy of the business. Others argued that there was no need for a financial specialist, because of the size of operation.

Table 7.9 RESPONSIBILITY FOR FINANCING FUNCTION

	St Up S.F.		S.G.F.		S Firms sample		Large firms	
	No F	%	No F	%	No F	%	No F	%
1. Entrepreneur/s	20	100	18	90	38	95	5	33
2. Owner/s and family members	7	35	5	25	12	30	2	13
3. Managing director and financial mgr (Non F)	0	0	1	5	1	3	10	67
4. Owner + finance mgr	0	0	5	25	5	13	5	33
5. Managing director (Non F)	0	0	0	0	0	0	11	73
6. Accountant	0	0	0	0	0	0	0	0
7. Chairman (BOD) (FM)	0	0	1	5	1	3	3	20

Table (7.9) shows that the financing decision in small business was built round the ability of the entrepreneur and his attitude and understanding of alternative sources of finance. The entrepreneurs sole responsibility for financing in a country with nearly 70% illiteracy rate questioned the type and quality of financing decisions in a hostile environment with meagre financial resources. Walker and Petty (1978) argue that:-

> "The basic nature of the entrepreneur could have a bearing upon the working capital decisions within the small corporations. If the managers of small firms are willing to assume greater risk, as experience would suggest, the attitude may well be reflected in the small firm's liquidity position."

With respect to the level of documentation required by banks in providing funds as reported by small firms the last year's accounts were ranked as most important piece of information for raising all types of institutional finance under both Islamic and under interest-based system (table 7.11). In response to the question how extensively did you document your case in attempting to obtain funds from outside sources - banks - 65% of small firms reported that they presented historical financial statements for overdraft finance and 80% for Murabaha finance. Table (7.10) shows the degree of importance of documentation in raising finance, as perceived by entrepreneurs, demand-side. This observation questioned the quality of the financial control systems maintained by small firms and what was useful in raising finance. This is a focus of the financial control which forms the second part of this study (Chapter 10).

Table 7.10

DEGREE OF IMPORTANCE OF DOCUMENTATION IN RAISING FUNDS AS REPORTED BY SMALL FIRMS

	St up S.F.		S.G.F.		S.F. Sample		Large Ent.	
	No F	%	No F	%	No F	%	No F	%
Very important	16	80	12	60	28	70	14	93
Important	3	15	6	30	9	23	1	7
Very important/important	19	95	18	90	37	93	15	100
Not important in Islamic B	2	10	2	10	4	10	0	0
Not important in continuous finance	1	5	1	5	2	5	0	0

Table No: 7 - 11

LEVEL OF DOCUMENTATION REQUIRED BY BANKS FOR PROVIDING FUNDS AS REPORTED BY SAMPLE FIRMS

	Starting up Small Firm				Small Growing Firm				Large Firm			
	O/d	Mur	Music	LTL	O/d	Mur	Music	LTL	O/d	Mur	Music	LTL
Last year's account	40	65	10	N/A	70	85	40	20	100	67	7	60
Cash budget	0	0	0	0	5	5	0	0	13	7	0	20
C.F. analysis	5	0	0	0	0	5	5	0	20	7	0	40
Statement of uses of funds	10	75	0	0	0	55	10	0	13	47	0	20
Current val. of Co.	10	10	5	0	0	0	0	15	7	0	0	27
Valuation by Bank Rep.	10	0	10	0	5	0	0	0	0	0	0	0
C.A/C only	0	5	5	0	5	0	0	0	0	0	0	0
Value of Security	25	45	5	15	15	20	5	10	27	47	23	53
Feasibility Study	5	5	5	15	0	0	0	20	0	0	0	40
Approved licence	10	20	20	15	10	20	10	-	13	20	7	7
Report fromyour bank	20	10	10	15	0	0	0	0	0	0	0	0
None	0	0	0	0	0	0	0	0	0	0	0	0
Prod. Plan	0	10	0	0	5	5	0	0	0	0	0	0

The survey provides evidence that the degree of importance of documentation was highly influenced by the volume of finance.

> "It is difficult, if not impossible, to get finance from banks without documentation, mainly last year's balance sheet, regardless of the name of applicant. We know that some people get finance without presenting any sort of documentation, but that is mainly small amounts within the discretion of the bank manager, and is highly dependent on the personal relationship between the bank manager and the applicant." (Entrepreneur)

Under the credit squeeze system, stated by the Central Bank (1983-86), all loans exceeding L.S. 300,000 had to be approved by the Central Bank, with all necessary documentation attached.

The research provides an interesting point that financing is not only based on documentation. Entrepreneurs reported that personal contact with banks management, ideology and attraction of the firm were the main factors behind success in raising finance in addition to documentation.

> "Our experience in public and foreign banks, shows that documentation is important in raising finance, because finance is based on credit worthiness, whereas in Islamic banks, it is not important, because financing is very short term and is based on factors other than documentation, mainly personal relationship and ideology."

This opinion was justified by Awad (1985) stating that "unscrupulous borrowers may take advantage of the Islamic banks' reluctance to make them pay more if they do not pay on time, and evade repayment of their loans. This is one reason why Islamic banks must be careful as to whom they lend their money." Regarding the use of personal relationship in raising institutional finance, it suffices to state the opinion of an experienced entrepreneur:

> "In my personal opinion, developed over time, from experience in trading and industry, the personal relationship with bank's management at different levels is very important in raising funds. It is important, because we are in the Sudanese

.....

community, where everything is based on personal relationship. Moreover there is lack of information in the Sudan and access to information is based on personal efforts. This does not rule out other factors in raising finance such as credit worthiness. A new factor in the financial market is ideology. The use of ideology, as a factor in providing finance by Islamic banks, is very natural if you trace how the management of these banks are appointed and how they have been put in the power position."

Others argue that the use of personal relationships in raising finance is very important under the credit squeeze system, where demand for funds is greater than supply (Demand and Supply formula), putting the absolute power of the financing decision in the hands of top banks' management. This observation indicates that small firm owners with no contact, and unknown by the fact of life as a very small project or investment is at disadvantage in raising funds, compared to owners and management of small growing and large firms. The use of the personal approach in raising finance has an adverse effect on the creation of small business and development of new ideas and projects.

Based on matrix analysis (table 7.12) of the critical factors behind the success of raising finance, documentation, good contacts with banks' management and bankers and business attraction, were ranked as most important factors.

With respect to information and advice on the financial facilities available and all financing matters, the small firm sample shows that there was a lack of information and advice. 88% of small firms reported they they did not seek or receive external financial advice from anybody. The Chairman of the Sudanese Businessmen Association commented that:

". there is a lack of information and advice in all aspects in the field of industry and particularly financing in the Sudan. The lack of advice on finance puts the small firm with an unenlightened owner at a disadvantage in obtaining finance."

Table 7.12 SUMMARY OF MOST IMPORTANT FACTORS IN RAISING FUNDS FROM BANK AS REPORTED BY SAMPLE FIRMS MATRIX ANALYSIS

	Starting up			Small growing firm			Large		
	Total Score			Total Score			Total Score		
	No	%	Ranking	No	%	Ranking	No	%	Ranking
1. Well presented case	77	20	2	51	16	2	90	22	1
2. Name of applicant	34	8	4	22	7	6	20	5	8
3. Good contacts with B Mgt and bankers	95	24	1	84	26	1	78	19	2
4. Business attraction	34	8	5	38	12	3	21	5	7
5. Obviously growing firm	-	-	x	27	8	5	53	13	3
6. Type of funds (SH. T)	51	13	3	35	11	4	18	4	9
7. Prompt settlement of debt	-	-	x	3	1	14	-	-	x
8. Profitability-Bank	7	2	10	9	3	9	-	-	x
9. Banks understanding to industry	-	-	x	3	1	15	-	-	x
10. Shareholder in the bank	8	2	11	15	5	7	9	2	11
11. Part of bank management	-	-	x	7	2	11			
12. Security provided	28	7	6	4	1	13	36	9	10
13. Govt directives	-	-	x	11	3	8	31	8	4
14. Nature of industry	13	3	9	6	2	12	37	9	5
15. Ability to present case	24	6	7	-	-	x	-	-	x
16. Local financing	16	4	8	-	-	x	-	-	x
17. Bank is a partner	7	2	12	-	-	x	-	-	x
18. Ability of Bus.to create C.F.	-	-	x	8	2	10	-	-	x
19. Enterprise has long history in business	-	-	x	-	-	x	14	3	6
Total	394	100		323	100		407	100	

Table 7.13

REASONS FOR NOT SEEKING FINANCIAL ADVICE
AS REPORTED BY SMALL FIRMS

	St up S.F		S.G.F.		S.F. Sample	
	No F	%	No F	%	No F	%
Not in need of ext. advice operation very small	9	45	7	35	16	40
Did not trust outsiders	5	25	5	25	10	25
Sufficient expertise within co.	1	5	3	15	4	10
Had not heard of anybody being available	10	50	12	60	22	55
Banks did not provide financial advice	8	40	6	30	14	35
Cost of advice is very high	1	5	0	0	1	3
Entrepreneur well experienced	0	0	3	15	3	8
Size of business is very small	0	0	3	15	3	8
Banks, as partners, provided advice	3	15	0	0	3	8

Table 7.13 reflects the typology of entrepreneur and his characteristics of reluctance to consult outsiders. This is a separate issue and will be discussed thoroughly in Chapter (9) of this study. The majority of entrepreneurs sample (55%) reported that they had not heard of anybody providing advice being available. The opinion and views of small firms on financial advice and its availability and unavailability could be summarised as follows:-

1. There was nobody in The Sudan providing financial advice, neither in the banking system, nor in the Government.
2. Banks were not interested in or willing to finance industry; therefore they did not provide financial advice and information to industrialists. There was no formal system for advice and information in any type of banks operating in The Sudan.
3. Lack of financial advice affected adversely the creation and development of all small businesses with no informal access to banks.

4. The cost of advice provided by private consultants was too high for small businesses.
5. Industry was initiated and based on the ability of entrepreneurs with experience in financing trading. Thus the advice gap is reflected in the lack of advice on the difference between trading and industry finance.

The foregoing discussion based on the opinion of entrepreneurs, suggests that there was an information and small business advisory gap in The Sudan. This gap measured into lack of information on financial facilities available to small businesses and non-existence of body for providing this advice to small business. This situation is aggravated by the management knowledge of entrepreneurs (see Chapter 9 on entreprenuership). Thus the empirical investigation based on the demand-side data identified the existence of Bolton Gap symptons in the Sudan. The identified gaps as symptoms will be examined from the supply-side perspective in the next chapter.

7.7 CONCLUSIONS

The empirical findings of this part of the study have both theoretical and policy implications. Some of the implications that emerge from this study are of especial significance for policy makers , financial institutions, and other bodies willing to help the small business sector in The Sudan.

Based on rigorous analysis of accounting and non-accounting data of small firms, in comparison with their large private enterprise counterparts, the empirical investigation on multi-dimensional measurement has identified the existence of a small business financing gap in The Sudan. The existence of what may best be known as the "Sudanese Macmillian Gap" as a pioneer effort, is based on long term debt, cost of borrowing disparity and capital shortage. This finding gives confirmation of the research hypothesis and consistent with Osáze (1981) in Nigeria and Bosa (1978) in Uganda, and challenging the finding and conclusion of Schatz (1965) and Harris (1966). Many academicians and financial people argue that the small business financing gap does not really exist, because most of the small businesses, which are unable to obtain long term financial facilities are not worthy of these finds in the first place (Grafer, 1968) (See Chapter 2). This study and its identification of finance gap approach, provides an answer to this arguement.

Based on the entrepreneurs opinion, the research has attributed the finance gap to banking policy and institutional gap. This opinion and its degree of validity will be examined in the next chapter. The analysis of raising funds approach shows the importance of documentation and personal contacts in obtaining institutional finance. The empirical investigation has identified the existence of 'Bolton Gap' in the Sudan in terms of lack of information on financial facilities available and lack of small business advisory services.

The reseach has only identified the symptoms of these gaps. Much remains to be done on the causes of these gaps, the interaction between these gaps and to what extent the finance gap is attributable to information and institutional gap and the degree of influence. The present study should afford a point of departure for in-depth analysis of the individual issues.

The uniqueness of this approach of small business financing gap identification (see Chapter 4) provides a strong and well-documented premise as a foundation for relevant and practical policy and strategy for small business development in The Sudan. At the policy implication level, a focal point needing to be raised at the outset, is which policies are likely to contribute to small business development and which programmes and initiatives can eliminate and/or close the identified gaps. The research findings provide policy makers with an answer to the question what is needed to close the gap, the form of the gap and its relationship to stage of small enterprise. The vital question to be answered first, is what financial philosophy is to be followed and how can it be implemented. This is rather a separate issue, and will be discussed in depth in Chapter 12.

The next logical step in this scholary process of investigation is to validate that the identified small business financing gap is created partially by the capital market operation and to what extent the financial control systems maintained by small firms is responsible for the gap. The first point will be discussed thoroughly in the next chapter (8). The second point is a part of the identification and establishment of the financial control characteristics of small business, which is the theme of chapter (10).

CHAPTER EIGHT

FINANCIAL INSTITUTIONS' BEHAVIOUR TOWARDS SMALL BUSINESS FINANCING IN THE SUDAN

The examination of the financial facilities available to small business in The Sudan (Chapter 5 - 7) led to the identification of two gaps in the provision of finance to the small business from the demand-side perspective. (Macmillian and Bolton Gap). The primary objective of this part of the study is to determine the role of the Sudanese and foreign commercial and development financial institutions in servicing the financial requirements of small businesses and to examine credit accommodation provided. Thus, an attempt is made to provide insight into financial ability, and willingness of the commercial and development financial bodies to provide finance to industry, and small manufacturing firms in particular. Thus, the ultimate objective of this chapter is to identify, or in other words to validate or invalidate that the identified small business financing gap is created partially by the capital market operation.

Due to the non-existence of a formal or informal definition of what constitutes small business in the existing financial institutions, the analysis was based on financial and non-financial data - opinions - (quantitative and qualitative).

8.1 FINANCIAL INSTITUTIONS SET-UP IN THE SUDAN

The existing structure of institutional finance in the Sudan for the flow of finance to industry and particularly small firms is composed of:-

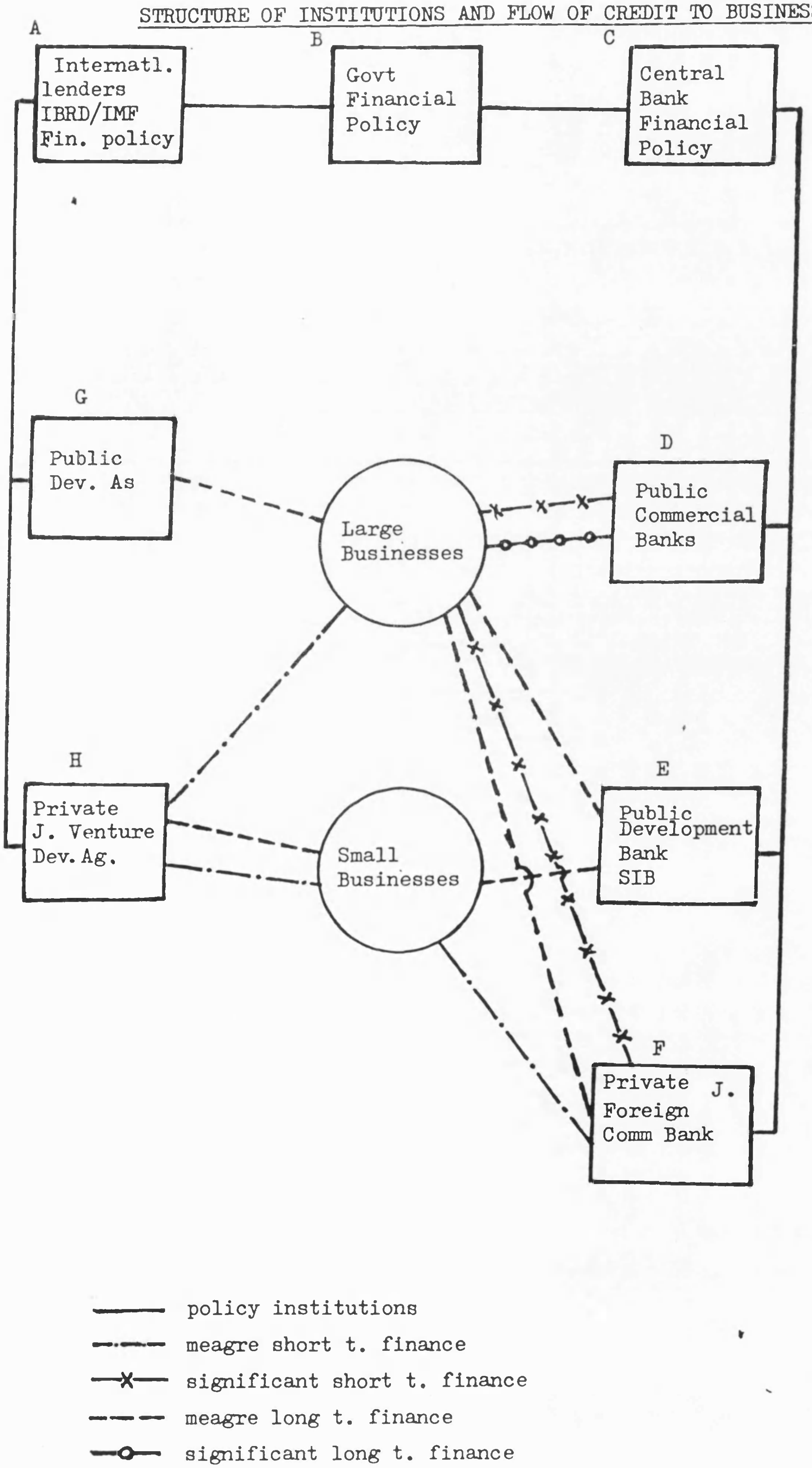
1. Traditional financial institutions, such as public and private commercial banks, based on both Islamic and interest based system.
2. The public development financial institutions, which are financed largely by Government sources such as The Sudanese Industrial Bank (SIB) and The Sudan Development Corporation (SDC).
3. The private and joint venture development agencies, such as The Sudan Rural Development Finance Company (SRDFC) and The Sudan Islamic Investment Company (SIIC), see figure 8.1.

Usually, the objective of the monetary and fiscal policies is to adjust the money supply in the capital and financial markets in accordance with the desired flow of business investment (Meltzer 1960). The international lenders (IBRD and IMF) have an influence on the financial policy and supply of money, through the determination of interest rate and the value of currency of most developing countries, and The Sudan is no exception. (Salih, SISA Newspaper 1986-Sept.) It may be expected, a prori, that expansionary monetary and fiscal policy, if successful, will encourage the financing of small business, whereas a restrictive policy will have the opposite effect.

The financial system in The Sudan is entirely regulated and managed by The Government. The Central Bank exercises quantative monetary control, primarily by deciding the credit ceiling of the commercial banks, as well as a qualitative control of the allocation of banks' financial resources, and the minimum interest or profit margin. In addition, the Central

FIGURE 8.1

STRUCTURE OF INSTITUTIONS AND FLOW OF CREDIT TO BUSINESS



Bank has the financing power to approve any loan or advance exceeding L.S. 300,000. In controlling the supply of money in the capital market, the Central Bank prescribes the liquidity ratios of commercial banks, and requires obligatory deposits with the commercial banks (12.5% of total bank deposit). The state of the art provides confirmation of the study's analytical framework (Chapter 3), that institutional financing is highly influenced by environmental factors such as Government financial and credit policy and international lenders influence.

The empirical investigation provides evidence that there was neither a definition for what constitutes small business, nor a policy for small business in the banking system. In response to the question have you maintained a policy regarding small business, 100 percent of the banks reported the non-existence of such a policy.

> "There is no clear-cut policy regarding small business. The issue is dealt with casually, while the bank is trying to conform to the directive of the Central Bank ... However, no classification as to the size of the business is considered in the process, because the decision on financing emerges from other factors."

In comparison with international experience in developed (U.S., U.K., Japan, Canada) and developing countries (India, Nigeria, Egypt) is an indication that there was a small business policy gap in the banking system in The Sudan.

8.2 COMMERCIAL BANKS AND SMALL BUSINESS FINANCING:

8.2.1 Commercial Banks Financing

Commercial and conventional financial institutions were criticised by the demand-side (small firms) for their lack of response to small business financing (Chapters 5 and 7), providing support to international allegations against commercial banks.

In examining the role of commercial banks in financing industrial development in The Sudan, consideration must be given to the ability of banks to provide financial facilities to small business. The criteria used by banks to determine lending capacity vary considerably, amongst other things, on the size of the bank, credit restrictions imposed by the Government and the nature of the bank. In this study, the advances to lending capacity ratio was used as a measure to determine whethere there was un-used lending capacity among commercial banks. The lending capacity of the bank was equated to deposit and equity, allowing a percentage for bank liquidity (10%) and the obligatory deposits decided by The Central Bank, under the credit squeeze system (12.5%) (1986).

Table (8.1) and figure (8.2) show the size of un-utilised lending capacity with all commercial banks between 1970 and 1984 (15 Years). The relevant table and figure show that the average un-utlised capacity per year was 11%. Table (8.1) and figure (8.2), provide evidence that the degree of un-utilised capacity maintained by commercial banks in the public and private sectors, under Islamic and interest-based systems, was very large. The existence of small business financing gap (Chapter 7), in conjunction with the large amount of un-used financial ability ranging from 16% to 55% was a good indication of the commercial banks attitude towards small business financing.

Table (8.2) based on 1984 financial data shows that the degree of un-utilised capacity was larger in private Islamic

TABLE 8.1

N.B. Fixed assets represent less than 1% of ttotal assets; for all banks except FIB, rep 21% in 1984

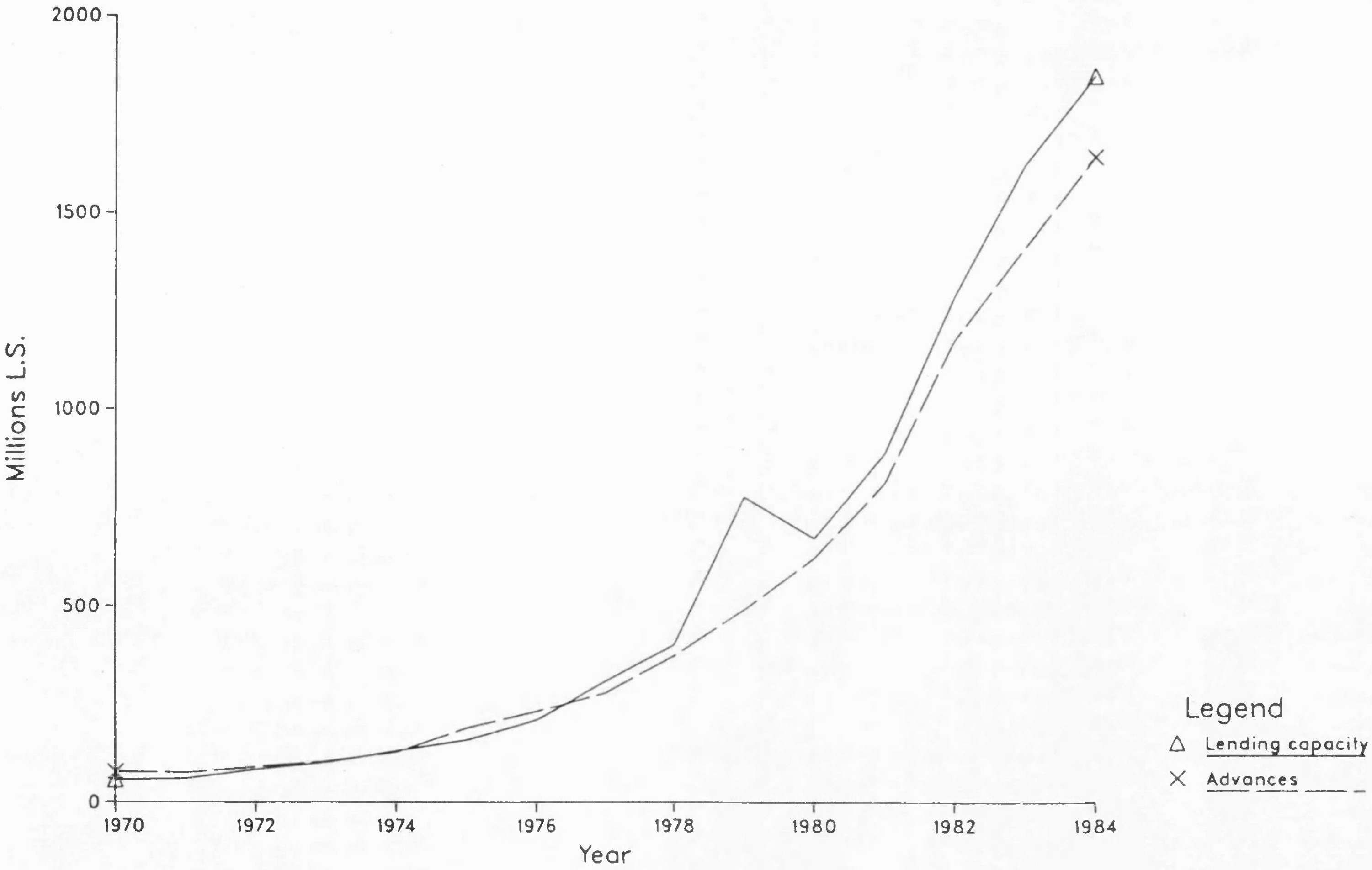
TABLE 8.1

Lendable and used lendable capacity of commercial banks 1970-1985 (15 years)

L.S. (in millions)
Lendable capacity

	Financial Resources			Bank of Sudan Min. Res.Reg	% For liquidy	Lendable Capacity	Advances			% of Used Lending Capacity	% of Unused Lending Capacity
	Total deposit	Capital	Total FR				To private Borrowing	Govt Security	Total Adv		
1970	57	6	63	-	10%	57	71	6	77	135%	(35%)
1971	61	6	67	-	10%	60	70	5	75	125%	(25%)
1972	86	6	92	-	10%	83	85	5	90	108%	(8%)
1973	106	6	112	-	10%	101	99	5	104	103%	(3%)
1974	141	6	147	-	10%	132	123	5	128	97%	3%
1975	172	6	178	-	10%	160	186	5	191	119%	(19%)
1976	224	10	234	-	10%	211	228	5	233	110%	(10%)
1977	327	16	343	-	10%	309	265	14	279	90%	10%
1978	428	19	447	-	10%	402	343	31	374	93%	7%
1979	845	21	866	-	10%	779	461	31	492	63%	37%
1980	720	29	749	-	10%	674	593	31	624	93%	7%
1981	943	45	988	-	10%	889	778	35	813	91%	9%
1982	1339	94	1433	-	10%	1290	1143	35	1178	91%	9%
1983	1782	247	2029	10%	10%	1623	1377	35	1412	87%	13%
1984	2063	326	2389	12.5%	10%	1851	1609	35	1644	89%	11%
Total	8997	843	9840	-		8621	7431	283	7714	89%	11%

Fig 8–2: Lending Capacity and Advances of Commercial Banks



banks than in public and joint venture commercial banks. This could be attributable to the fact that Islamic banks were trading-orientated as a newly established experience (Awad, 1984), and trading finance was curtailed by The Central Bank as a part of the credit policy in an attempt to reduce the growth of money in the financial market, and to channel banks' finances into productive sector (Bank of Sudan 1984/85).

Table 8.2

UN-UTILISED LENDING CAPACITY OF COMMERCIAL BANKS IN 1984

No	Bank	Un-used capacity
1.	Faisal Islamic Bank	47%
2.	Tadamon Islamic Bank	37%
3.	Bank of Khartoum	35%
4.	El Nilien Bank	22%
5.	Sudan Commercial Bank	16%
6.	Sudan International Bank	15%
7.	Sudanese Savings Bank	14%

The traditional problem of all banks and bankers all over the world is how to maintain a balance between deposits and advances and loans provided by the bank. Table (8.3), and figures 8.3 and 8.4 show the classification of deposits into demand, time (investment) and savings deposits with all commercial banks operating in The Sudan between 1975 and 1984 (10 years). The table and figures show that the demand deposit or current accounts represents 69% of the total deposit, whereas time

TABLE 8.3

LS in thousands

Analysis of Deposits by Type of Account and analysis of advances (Comm Banks)

1975-1984 - 10 years

	1975				1976				1977				1978			
	C/A/C	T.DEP	Savg	Total	C/A/C	T.Dep	Savg	Total	C/A	T.Dep	Savg	Total	C/A/C	T.Dep	Sav	Total
Govt	3215	152	-	3367	3431	4626	-	8057	7941	8073	-	16014	8903	7945	337	17185
Boards	319	- -	-	319	70	-	-	70	112	-	-	112	183	-	-	183
Local Govt	2230	36	-	2266	3095	400	-	3495	3647	20	-	3667	3339	2608	20	5967
Private	118256	7995	39714	165965	151258	9141	52659	213058	221469	14172	77509	313150	222668	18209	74929	315806
Total	124020	8183	39714	171917	157854	14167	52659	224680	233169	22265	77509	323943	235098	28762	75286	339141
%	72%	5%	23%	100%	70%	6%	24%	100%	70%	7%	23%	100%	69%	8%	23%	100%

ADVANCES (millions)

	1975			1976			1977			1978		
	Short t.f.	Long t.f	Total	short t.f.	Long t.f.	Total	Short t.f.	Long t.f.	Total	short t.f.	Long t.f.	Total
	175	11	186	210	18	228	223	42	265	291	52	343
Diff.Bet Dep.& Adv.			(14)			(3)			68			(4)
Capital			6			10			16			19
Unused Capacity			(8)			7			84			15

IN THOUSANDS

	1979				1980				1981				1982			
	C/A/C	T Dep	Savg	Total	C/A/C	T.Dep	Savg	Total	C/A/C	T Dep	Savg	Total	C/A/C	T Dept	Savg	Total
Govt	10207	5221	22	15450	12821	–	238	13059	19850	5235	149	25234	12215	–	164	12379
Boards	213	–	–	213	298	–	–	298	489	–	–	489	12948	–	6	12954
Local Govt	3608	–	–	3608	11622	–	210	11832	8221	107	–	8328	8122	–	1061	9138
Private	388327	34468	106010	528805	528568	51046	115210	694824	644980	10979	15380	908500	875975	218129	210940	1305044
Total	402355	39689	106032	548076	553309	51046	115658	720013	673540	115061	153950	942551	909260	218129	212171	1339560
%	73%	7%	20%	100%	77%	7%	16%	100%	71%	12%	17%	100%	68%	16%	16%	100%

	1979			1930			1931			1932		
	Sh t loan	Long t loan	Total	sh t. loan	long t l	Total	Sh.T. loan	Long T.L	Total	Short T.L.	Long T.L.	Total
	365	96	461	463	130	593	611	167	778	900	243	1143
Diff.Bet. Dep. & Adv.			87			127			165			197
Capital			21			29			45			94
Unused capacity			108			156			210			291

(IN THOUSANDS) (L.S.)

	1983				1984				Total in Millions			
	C A/C	T.D	Savg	Total	C A/C	T.D.	Savg	Total	C A/C	T.D	Savg	Total
Govt	21328	-	175	21503	24437	-	-	24437	125	31	1	157
Boards	26579	-	- -	26579	42746	-	-	42746	84	-	-	84
Local Govt	23323	-	937	24260	32346	-	-	32346	100	3	2	105
Private	1085774	275039	348202	1709015	1283455	378185	302433	1964073	5521	1115	1481	8117
Total	1151004	275039	349314	1781357	1382984	378185	302433	2063602	5830	1149	1484	8463
%	65%	15%	20%	100%	67%	18%	15%	100%	69%	14%	17%	100%

	1983			1984					
	Sh T. Loans	L.T. Loan	Total	Sh.T. Loan	Long T. L.	Total	Sh.T.Loan	Long T. Loan	Total Advance
Die Deposits	1002	375	1377	1155	454	1609	5795	1636	7431
Diff.between Deposits and Advances			404			455			1032
Capital			247			326			843
Un-used capacity			651			781			1875

ANALYSIS OF DEPOSITS BY TYPE OF ACCOUNT AND

ANALYSIS OF ADVANCES 1975-1984 10 YEARS

AVERAGE PER ONE YEAR

L(000,000) in millions

IN MILLIONS

	Current Account	Time Deposit	Savings	Total Deposit	Capital	Total Fin.R	10% Res.	Lending Capacity	Fin. Facil.	Used Lend. Cap.
	583	115	148	846	84	930	93	837	743	89%
T.F.R	63%	12%	16%	91%	9%	100%			STL 78%	
Deposits	69%	14%	17%	100%					LTL 22%	

Fig 8–3: Commercial Bank s' Deposits and Advances to private borrowers, 1975–1984

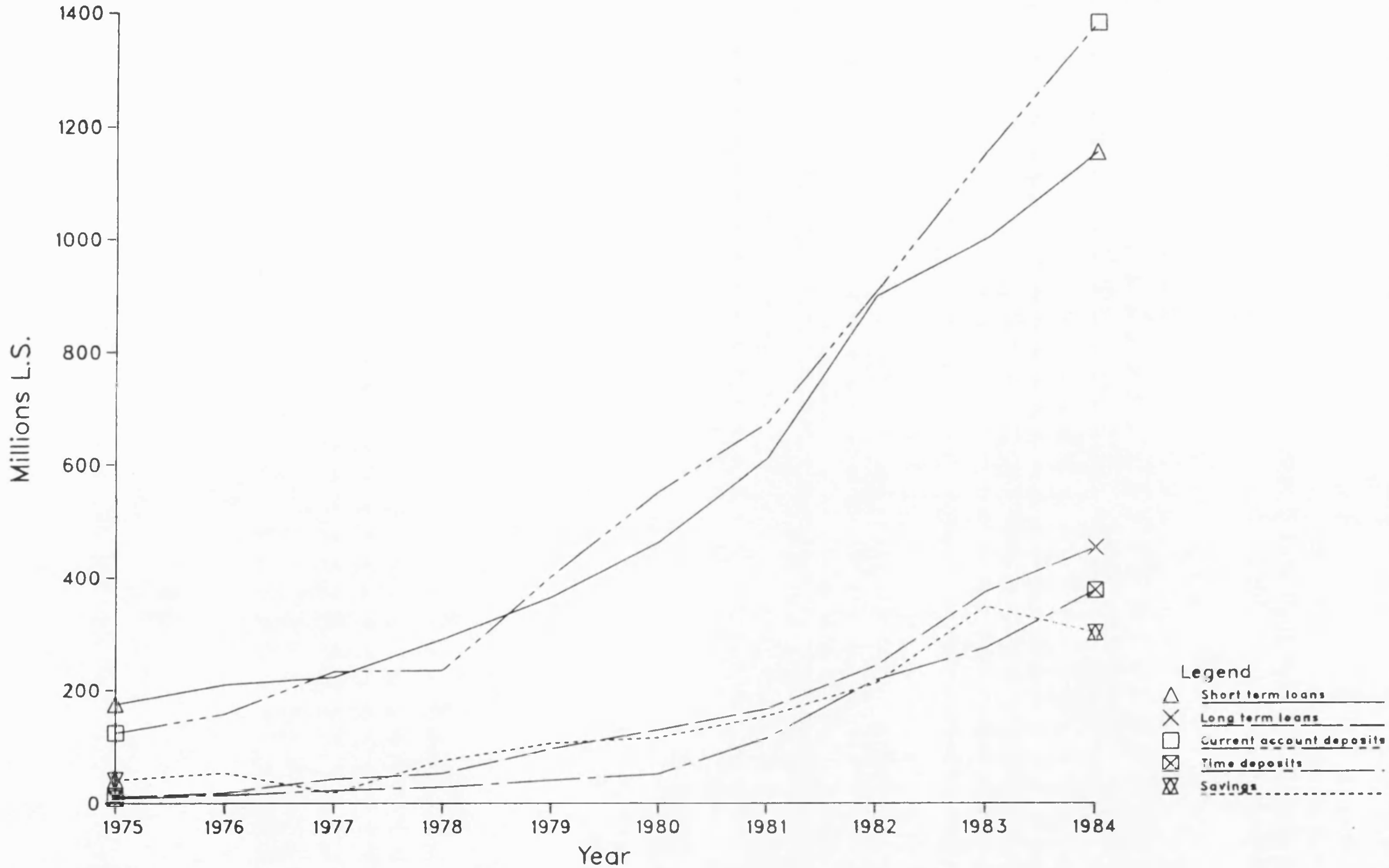


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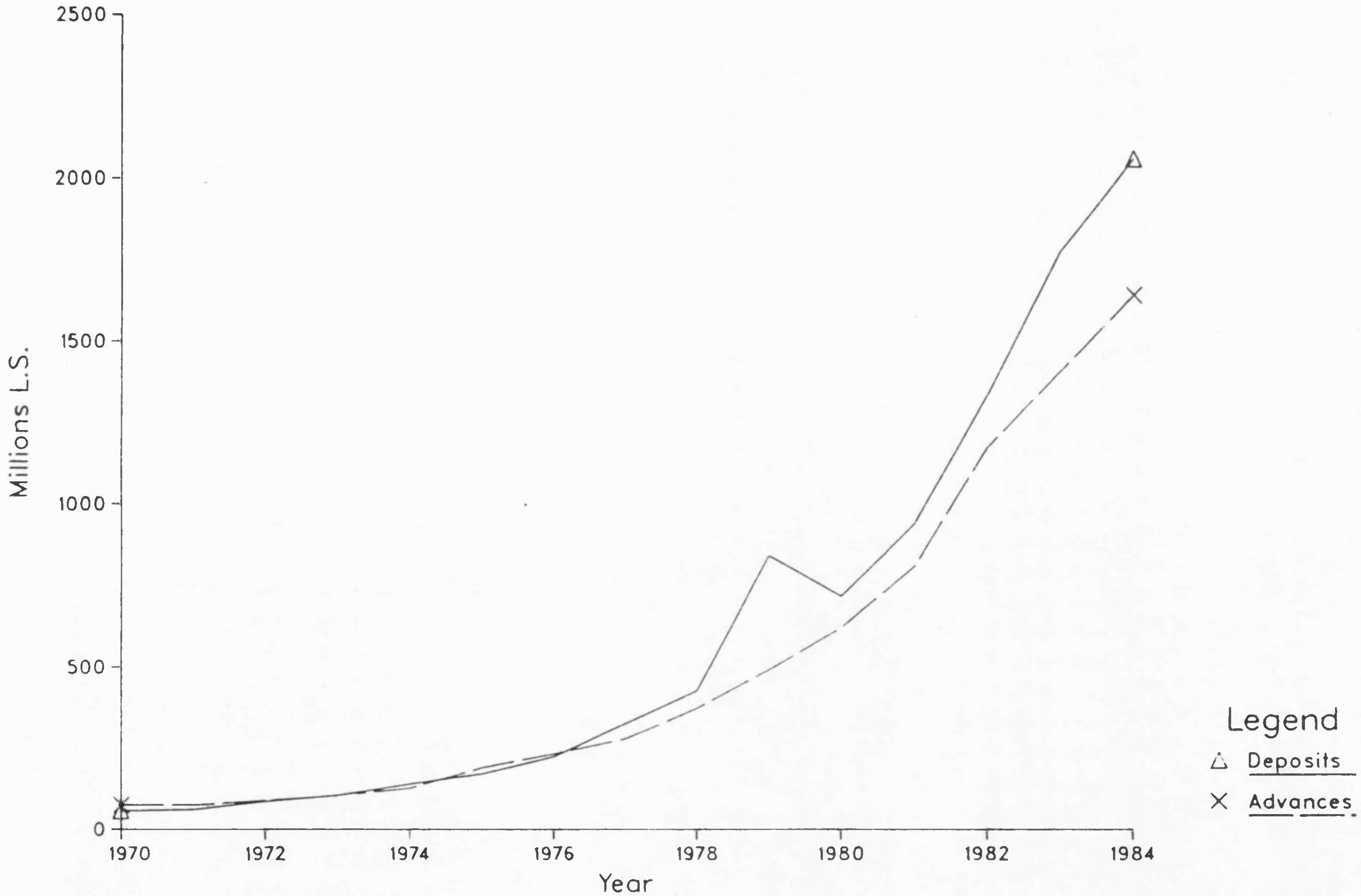
Fig 8–4: Deposits and Advances of Commercial Banks . Agg., 1970–1984



and saving deposit represents 14% and 17% respectively. The size of demand deposit has an implication on mode of banks' advances.

Table 8.4 ANALYSIS OF DEPOSITS BY TYPE OF ACCOUNT (1980-1984)

		(1)	(2)	(3)	(4) = 2 + 3
No		Dem Dep	Time Dep	Savg Dep	T + S Dep
		%	%	%	%
1.	Sudan Commercial Bank	75	6	19	25
2.	Elnilien Bank	69	5	26	31
3.	Bank of Khartoum	80	1	19	20
4.	Sudanese International Bank	66	30	4	34
5.	Faisal Islamic Bank	51	46	3	49
6.	Tadoman Islamic Bank	70	6	24	30

Table (8.4) shows an interesting point that the structure of deposits varies between Islamic and non-Islamic banks in the sense that time deposits maintained by Islamic banks were more than those maintained by public and other private banks. This is attributable to the fact that Islamic banks are based on profit sharing and investment deposits. It is not the purpose of this study to examine variation in the banking system, but rather to show the implication of deposit structure and types of banks' financial resources on pattern of financing.

It was established in the literature that the bank has to maintain and strike a balance between safety and profitability. In other words, to achieve a balance that maximises short-term profitability, while not sacrificing long-term profitability.

Table (8.5) and figure (8.5) show the classification of commercial banks advances for the period 1970-1984. The table and figure show that short-term loans were by far the most dominant sort of advances provided by the commercial banks (78%). This finding was a reflection of lack of long term financing in the banking system.

According to the credit policy issued by the Central Bank towards the end of 1985, private sector banks were directed to raise their share in medium and long term financing, from 10% to 25% of the total credit ceiling set for each bank. Public commercial banks, on the other hand were not allowed to provide long term loans to more than 5% of its total credit ceiling. The long term loans and advances provided by commercial banks ranged from 1% in Islamic banks, to 25% maintained by public commercial banks. The low level of long term advances provided by Islamic banks has been justified by pointing out that they are still at the experimental stage, and had to avoid risky and prolonged loans.

> "We are constrained in providing finance by the deposit portfolio within which demand deposits formed a high proportion."

The research banks sample reported that short term financing was more profitable to the bank under the credit squeeze system, by increasing the turnover of the bank financial resources.

The empirical work provides evidence that the commercial banks in The Sudan, under both Islamic and interest based system, were concerned mainly with the financing of trade, with

TABLE 8.5

ANALYSIS OF COMMERCIAL BANKS' ADVANCES
TO PRIVATE BORROWERS 1970-1984 (15 YEARS)

Quest: Availability of Long Term Loans

IDENTIFICATION OF FINANCIAL GAP FROM SUPPLY-SIDE PERSPECTIVE

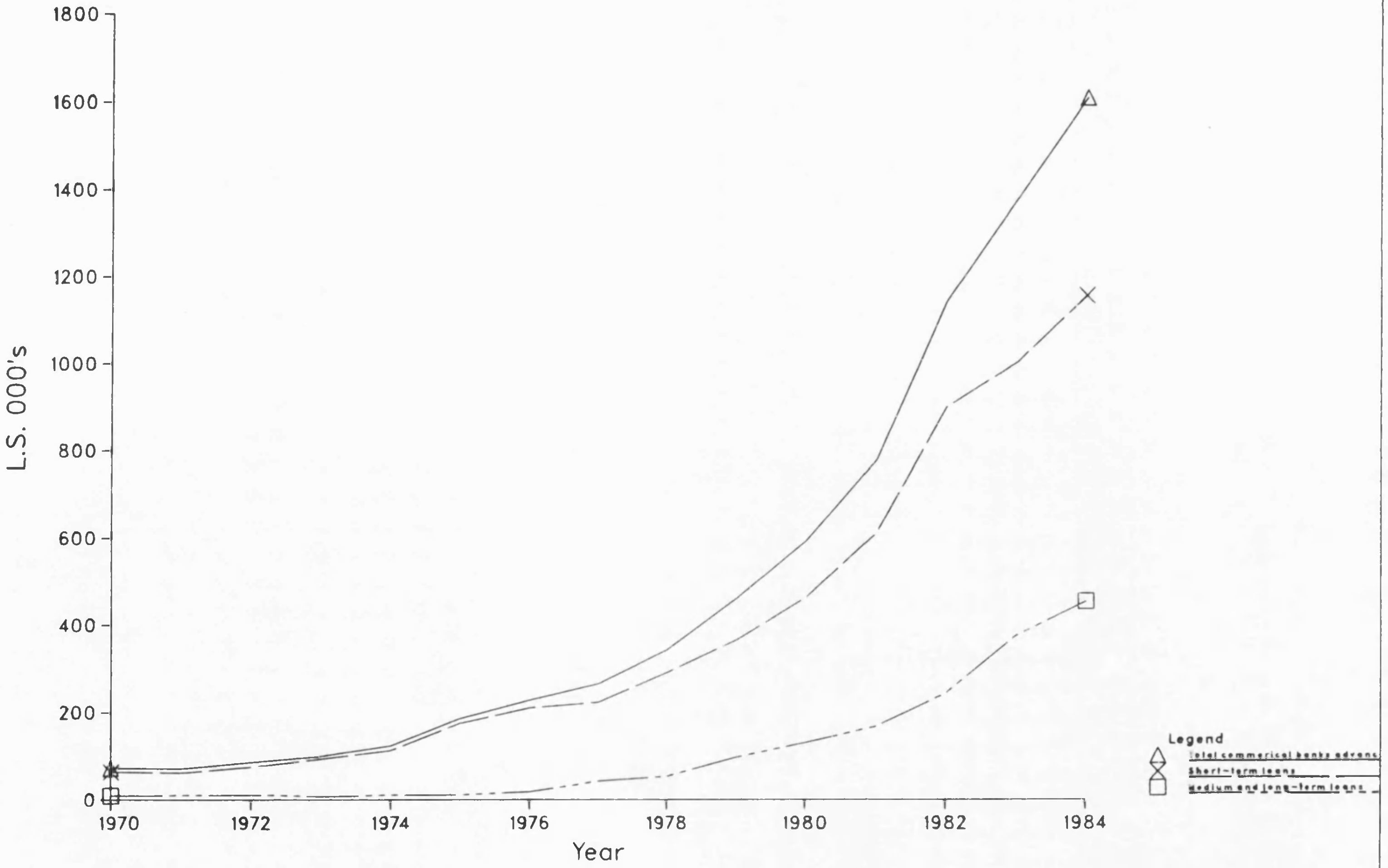
L.S. MILLION

Year	Short T. Loans	Medium and Long T. Loans	Total Adv.	% of S.T. Loans	% of L.T. Loans	100%
				%	%	%
1970	62	9	71	87	13	100
1971	60	10	70	86	14	100
1972	74	11	85	87	13	100
1973	92	7	99	93	7	100
1974	112	11	123	91	9	100
1975	175	11	186	94	6	100
1976	210	18	228	92	8	100
1977	223	42	265	84	16	100
1978	291	52	343	85	15	100
1979	365	96	461	79	21	100
1980	463	130	593	78	22	100
1981	611	167	778	79	21	100
1982	900	243	1143	79	21	100
1983	1002	375	1377	73	27	100
1984	1155	454	1609	72	28	100
	5795	1636	7431	78%	22%	100%

Range of Bank long term loans 1970-1984 (15 years)

Less than 25%	87%
Less than 10%	27%
10-15%	27%
16-20%	7%
21-25%	27%
26-30%	13%
Over 30%	0

Fig 8–5: Analysis of Commercial Banks Advances to Private Borrowers



an average of 69%, and 31% for short term industry financing. Table (8.6) and figures (8.6) and (8.7) show that most bank credit was allocated to import and exports as well as trading in the local market.

Regarding the classification of industry financing (31%) as to the size of industry, there was no formal definition, so as to determine quantitatively the contribution of commercial banks in financing small business. Bank managements and bankers enumerated a number of reasons for giving a high priority to large and growing firms rather than to small and newly established enterprises.

1. Under the credit squeeze system, the bank has to maximise the use of its resources into profitable and well secured investment.
2. Large enterprises provide guarantees and security to the bank.
3. "Banks are more concious about security and profit, rather than the future prospect of the business. Bankers in traditional commercial banking systems are more conservative and trading-orientated."
4. "Islamic financing under Marabaha encourage financing of trade, rather than industry, and financing of large rather than unknown small businesses, because it is very short and based on guarantee and security. Due to prohibition of charging penalty against delay in payment under the Sharia code, the security for settlement is the most critical factor in providing finance to client."

These points reflect the conservative nature of banks and bankers as well as their security and profit orientation. The credit squeeze system imposed by the Government is an answer to the question of the difficulties small business experienced in raising institutional finance. Under the ceiling

TABLE 8.6 COMMERCIAL BANKS' ADVANCES TO PRIVATE BORROWERS DURING 1975-1984

(1) Availability of long term loans
(X) Finance of industry

10 Years
LS millions

	Short Term Advances (1) Exports		(2)(X) Imports and Local Trading		(3)(x) Industrial Enterprises		(4) Other busness Enterprises		(5) Others		Sub Total S T. Adv.		Medium and long Term loans Medium & Long T loan		
	Amt	%	Amt	%	Amt	%	Amt	%	Amt	%	Amt	%	Amt	%	Total Adv
1975	68	39	15	9	59	34	21	12	12	7	175	94	11	6	186
1976	82	39	16	8	74	35	24	11	14	7	210	92	18	8	228
1977	85	38	23	10	75	34	27	12	13	6	223	84	41	16	264
1978	93	32	39	13	107	37	29	10	23	8	291	85	52	15	343
1979	111	30	48	13	135	37	38	10	33	9	365	79	96	21	461
1980	149	32	61	13	170	37	49	11	33	7	462	78	130	22	592
1981	162	27	125	20	227	37	63	10	34	6	611	79	166	21	777
1982	298	33	204	23	268	30	77	8	52	6	899	79	243	21	1142
1983	312	31	242	24	276	28	103	10	69	7	1002	73	375	27	1377
1984	358	31	298	26	286	25	128	11	85	7	1155	72	454	28	1609
Total	1718	32	1078	20	1677	31	559	10	368	7	5393	77	1586	23	6979
Average of year	172	32	107	20	167	31	56	10	37	7	539	77	159	23	698

Fig 8–6: Commercial Banks' short–term advances to private borrowers by economic activities 1975–1984

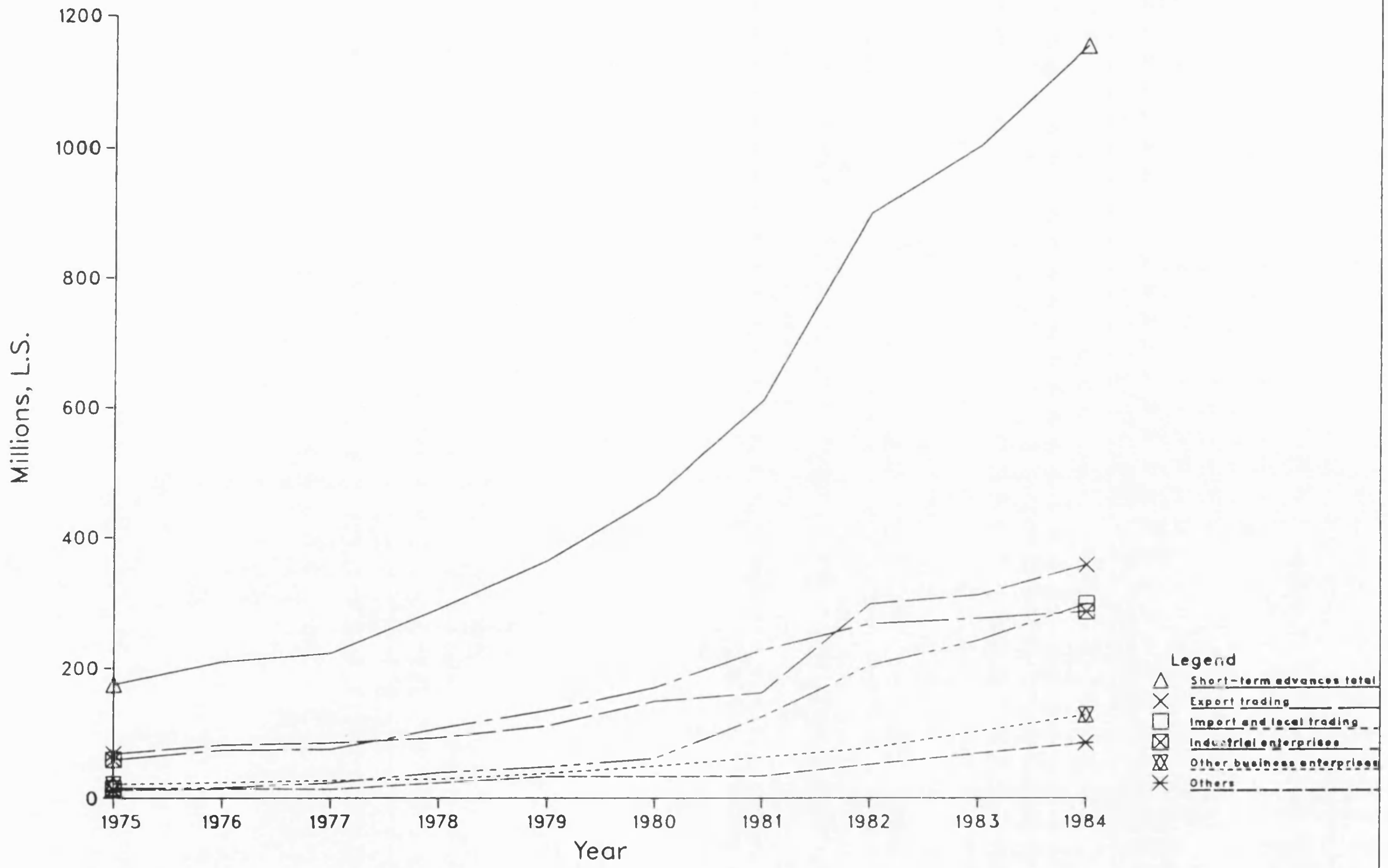
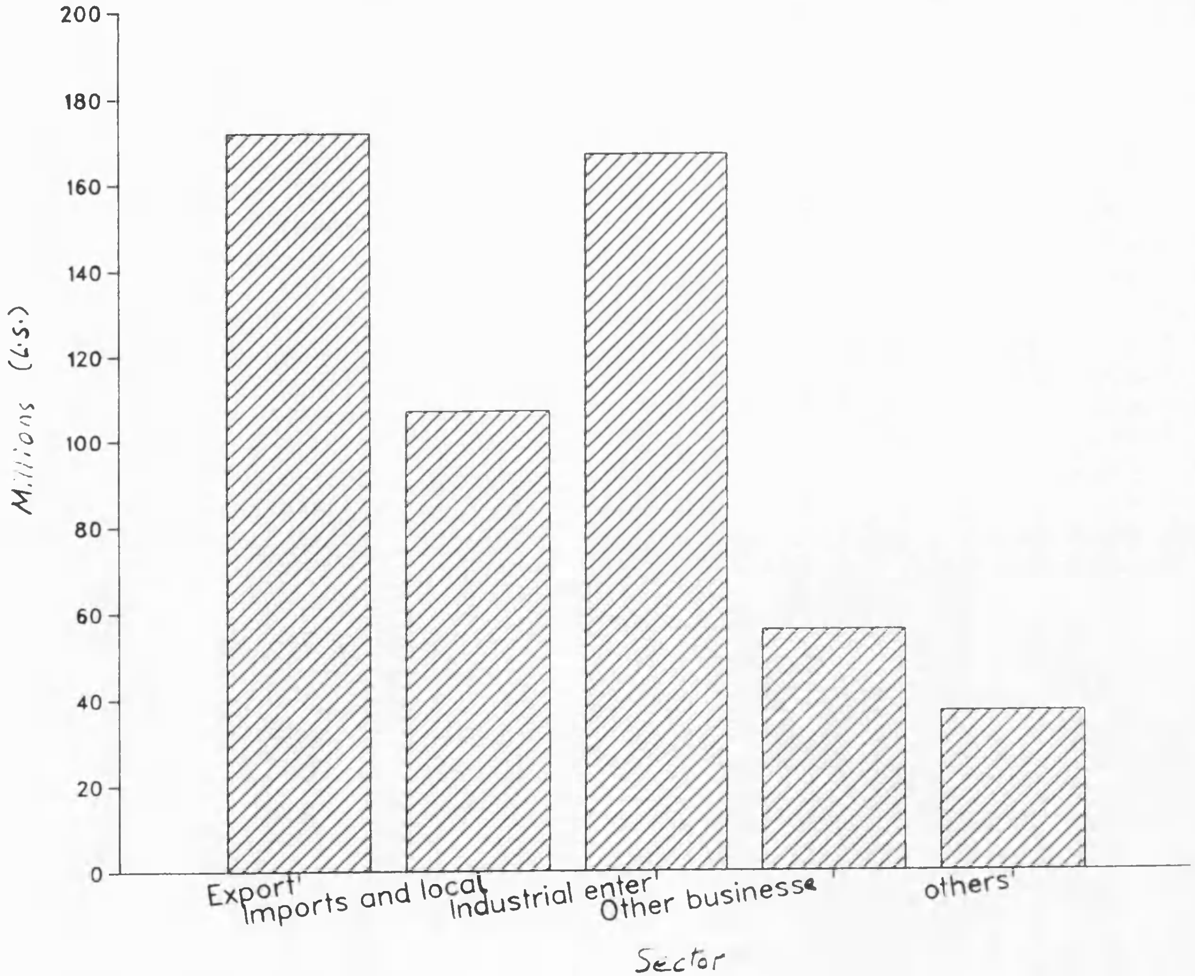


Fig 8–7: Commercial Bank's short–term advances to economic sectors. 1975–1984



system, banks tended to extend credit to small businesses only to the extent that funds were not required by big enterprises. This was observed in developed and developing countries. Kearney (1977) commented that: "small businessmen bear a large part of the brunt of both the restrictive monetary policy ... and of the disintermediation caused by the peculiar systems of ceiling deposits."

8.2.2. Financing Decision Factors in Commercial Banks

In examining the financial institutions' behaviour towards small business financing in Britain; the Wilsom Committee (1979) concluded that small firms were at a considerable disadvantage in the financial market. Loans were more expensive, and security arrangements were also more stringent. Lending by commercial banks in The Sudan is undertaken against a security of one sort or another, varying from personal signature, post-dated cheque, guarantee by third parties, to more than full cover provided in the form of tangible assets provided by the borrowers.

> "Regarding collatorial requirements, there is no difference between small and large enterprises. The security required varies with the operation, type of industry and the historical profile of the customer (Judgment)."

Under-participating capital agreement - 'Musharaka' collaterial arrangement reauired by banks could be detailed as follows:-

a) All material financed by the bank should be under the direct custody of the bank - 'Direct pledge'.

b) The material financed by the bank to be under the direct custody of the client, provided that he/she presents periodical records - letter of trust.

c) Deed of mortgage, which is used as a collateral requirement for the trust receipt.

d) Debenture.

Under Marabaha finance, personal guarantee or third parties guarantee was used by all banks except private foreign banks, as collateral requirements and security for all loans and advances not exceeding L.S.300,000. The post-dated cheque, direct pledge, and mortgage deed, were used by commercial banks as security against Murabaha finance. The credit policy stated by The Central Bank was based on the philosophy of deflation and finance against security:

> "Financing on overdraft basis should be provided for specific item and transaction and under satisfactory security."
> "Bank of Sudan, Credit Policy 1985"

Based on loan-security equation small business seems less attractive to the commercial banks, and large enterprises were considered safe for investment. Thus, small businesses were discriminated against, as compared to large corporations. Besong (1977) justified the commercial banking behaviour arguing that:-

> " .....The security becomes necessary when the relationship between banker and businessman lacks trust, and many small business borrowers are in the habit of trading on thin equity."

Table (8.7) (Overleaf) shows the higher value of security required by banks in providing long-term loans, which is unlikely to be satisfied by typical small business. This finding is consistent with result based on the opinion of small firms (see Chapter 5). Groves and Harrison(1974) in the U.K. commented that: "Small companies, however, face a set of difficulteis peculiar to their group which make it more difficult for them to obtain long term finance."

Table 8.7 RELATIONSHIP BETWEEN VALUE OF LOANS AND COLLATERIAL REQUIREMENTS

Type of Loan	Bank of KH.	S. Comm. Bank	Nilien Bank	FIB.	TIB.	Int. Bank	Sudanese Saving Bank	ABU Dah. B.	Central Bank
	%	%	%	%	%	%	%	%	%
Long t. loan	200	200	200	200	250	n/a	100	n/a	100
Marabaha	100	100	100	100	100	100	100	100	100
Musharaka	100	n/a	100	100	100	n/a	100	n/a	100
Overdraft	100	100	100	n/a	n/a	100	100	100	100

In examining the attitude of commercial banks towards small business financing and particularly small manufacturing firms, the bank managements were asked to rank ten factors in order of importance to them in making loan decisions. Tables (8.8.A) and (8.8.B) show that The Central Bank regulations, the security, established loan policies of the bank and the profile of the customer, were the four most important factors in channelling funds to clients. The table shows an interesting result, that the management of the businesses is a critical factor in institutional finance.

> "Under Musharaka finance, the participation and loan decision is highly based on the evaluation of the company assets, and how the company is managed in terms of system and cadre" (FIB).

The survey provides that small business was managed on a personal, rather than formal structure (Chapter 9). This observation questioned critically to what extent banks were staffed with knowledgeable personnel, able to understand the difference between small and large businesses.

The commercial banks reported that the size of the business was one of the most important factors in making loan decision on the grounds that the size of the firm is a reflection of the value of security.

It was observed that the private commercial banks seem to give more weight to security provided, the name of applicant, and official rules embodied in The Central Bank directives, than to the economic development, potential of the company to the community. This sort of conflict between profitability and economic development experience by conventional

TABLE 8.8.A.

MOST CRITICAL FACTORS IN LOAN DECISION AS REPORTED BY COMMERCIAL BANKS SAMPLE AND THE CENTRAL BANK

	1	2	3	4	5	6	7	8
	FIB	NL. B	TIB	ABU D. B	Int. B	Kh. B	Sudan. B	Central B
Nationality of the owner/s	7	9	8	9	9	7	9	5
The Bank's financial position	3	5	2	8	4	6	4	10
The firm's management	4	6	5	2	5	4	5	6
The firm's financial position	8	3	6	3	2	3	3	7
The growth potential of the firm industry	5	8	4	1	7	5	7	9
The established loan policies of the bank	2	1	3	6	3	2	1	x
Central Bank requirements	1	2	1	5	1	1	2	1
Size of the firm	6	7	7	7	6	8	6	4
Name of applicant	9	11	9	10	8	9	8	x
Development potential of the company to the community	x	4	x	x	x	x	10	2
Nature of industry	x	x	x	11	x	x	x	3
Security provided	10	10	10	4	10	x	11	8
Ideological factors	x	x	x	x	x	x	x	x
Geographical location	x	x	x	x	x	x	x	x
Management (Bank) opinion	x	x	x	x	x	x	x	x

TABLE 8.8.B

MATRIX REPRESENTATION

	1	2	3	4	5	6	7	8	9	10	Total Score No	Total Score %	RANKING
Nationality of the owners	x	x	x	x	1	x	2	1	4	x	25	6	8
The Bank's financial position	x	1	1	2	1	1	x	1	x	1	46	11	5
The firm's management	x	1	x	2	3	2	x	x	x	x	51	12	4
The firm's financial position	x	1	4	x	x	1	1	1	x	x	53	12	3
The growth potential of the firms industry	1	x	x	1	2	x	2	1	1	x	42	10	6
The established loan policies of the bank	2	2	2	x	x	1	x	x	x	x	59	13	2
Central Bank regulations	5	2	x	x	1	x	x	x	x	x	74	17	1
The Size of the firm	x	x	x	1	x	3	3	1	x	x	36	8	7
Name of the applicant	x	x	x	x	x	x	x	2	3	1	13	3	11
Development potential of the company to the community	x	1	x	1	x	x	x	x	x	1	17	4	9
Nature of industry	x	x	1	x	x	x	x	x	x	x	8	2	12
Security provided	x	x	x	1	x	x	x	1	x	4	14	3.2	10
Total	8	8	8	8	8	8	8	8	8	7	438	100	

banks was observed by Whittlesely (1956). He argued that: "It is the nature of bankers, including Central bankers, to be conservative rather than adventurous. But economic growth is essentially an adventurous concept."

The survey shows that Islamic banks give more consideration to the personality of applicant. This is attributable to Sharia code and principle, which governed the operation of Islamic banks under the direct supervision of "Fatawa Supervisory Board". This observation is consistent with the finding based on entrepreneurs' opinion (Chapter 5).

In examining the willingness of commercial banks to extend credit and privide finance to small firms, bank managements were asked to rate banks on their eagerness to help finance industry. The opinions of bankers revealed that banks did not like to provide finance to manufacturing, and particularly not to small manufacturing firms.

The deficiency of the traditional and conventional financial institutions, stand as a practical justification for initiation or specialised financial body, so as to fill or eliminate the void created by commercial banks' practice. Virata (1979) argued that: "Where there is a great need for development financing, the existing financial systems are based towards short term maturities, especially in developing countries where there is a general lack of savings."

8.3 DEVELOPMENT FINANCIAL INSTITUTIONS (DFIS)

Development banks were perceived by academics and professionals as instruments for attaining the objective of rapid industrialisation (Raj 1979). The theoretical and practical justification for the establishment of development financial bodies in developing countries was described by Franklin Root (1977) as follows: "In developing countries, productivity is low because income is low; investment is low because savings are insufficient; savings are insufficient because incomes are low; incomes are low because productivity is low." Giscard (1979) added that the principal problem for the developing countries is, therefore, to break the cycle described by Franklin.

The theoretical foundation, and the philosophy behind the establishment of 'DFI' is to provide development and long-perspective finance at reasonable terms and cost to firms which are unable to obtain funds from commercial banks. The vital question in this context is, to what extent did the Sudanese development financial institutions in theory and practice, establish a system of finance for industry, and how did this differ from conventional bank practice.

8.3.1. The Sudanese Industrial Bank(SIB)

It was established in 1961 as a Govermental development financial institution with L.S.200,000 authorised and paid capital.

> "The Sudan commercial bank's loans to industry have been characterised by their short term nature. Private Sudanese investors were sceptical towards investment in the relatively new field of industry. Given the low level of savings, scarcity of foreigh exchange, and investors reluctance to indulge in industry, the need for a specialised industrial financing institution seemed imperative."
> (SIB Report 1980)

. The '1961' legislation confined the bank to the financing of projects in the manufacturing sector only, regardless of the size of industry.

In spite of the positive direction towards small business financing, which was not stated in the bank policy, but rather emerged from the meagre financial resources held by the bank, there was no formal or informal stated definition of what constitutes small business in the bank's policy. This was a true indication of a small business policy gap in The Sudan.

Table (8.9) and figure (8.8) analyses bank operations since its inception in 1962, and reflects the effect of these operations on investment and financing of industry. During the period 1962-1983, the bank approved 241 loans to establish new projects, and 81 supplementary loans for existing projects. Total bank contribution in these projects was in the form of loans L.S.15 million (88%), L.S.0.575 million (3%) and guarantees L.S.1.60 million (9%). Thus, the total bank contribution during this period (22 years) amounted to L.S.17.18 million as part of the total investment of L.S.33 million ie the bank contribution represented 53% of the total investment created by the financial and assisted firms.

The table (8.9) shows the industrial enterprises receiving loans and financial facilities from the SIB was 322. This shows the low level of financial contribution of the SIB to the industry. According to the 1981/82 industrial survey, the number of manufacturing firms registered in The Sudan was 7036 (Chapter 1). This indicates that 5% only of manufacturing firms succeeded in obtaining finance from the SIB.

TABLE 8.9

ANALYSIS OF SIB FINANCE 1962-1983 (LS(000's)

	No of N. Loans	No. of Supp. Loans	Total No. Loans	Bank Cont LS ooo's Loans	Equity	Guarantee	Total	LS 000's Total Invest	Bank Cont.	Owner Cont.	LS 000's Av. A. Loan
				68	0	0	68	131	%	%	
1962	5	0	5	68	0	0	68	131	52	48	14
1963	14	3	17	398	0	0	398	588	68	32	23
1964	13	3	16	242	0	0	242	503	48	52	15
1965	8	0	8	136	0	0	136	840	16	84	17
1966	15	4	19	351	438	193	982	1350	73	27	52
1967	14	3	17	160	0	0	160	268	60	40	9
1968	11	4	15	234	0	53	287	524	55	45	19
1969	1	0	1	4	0	0	4	6	67	33	4
1970	3	3	6	72	0	270	342	526	65	35	57
1971	16	3	19	273	0	445	718	1066	67	33	38
1972	9	3	12	294	0	77	371	521	71	29	31
1973	11	4	15	1507	0	423	1930	4150	47	53	129
1974	7	5	12	316	0	88	404	670	60	40	34
1975	5	5	10	1271	0	0	1271	2320	55	45	127
1976	9	3	12	1747	138	0	1885	3124	60	40	157
1977	6	6	12	553	0	0	553	828	67	333	46
1978	16	1	17	818	0	0	818	1493	55	45	48
1979	14	6	20	715	0	0	715	1114	64	36	36

ANALYSIS OF SIB FINANCE

1962 - 1983

LS (000's) Bank Cont.

	No. N.L.	No. Supp.	Total No.loan	Loans	Equity	Guar.	Total Cont.	Total Inv.	Bank Cont.	Owner Cont.	Av. AMT. Loan
1980	13	8	21	1734	0	0	1734	3685	47%	53%	83
1981	15	8	23	1172	0	0	1172	2263	52%	48%	51
1982	23	6	29	1524	0	0	1524	3607	42%	58%	53
1983	13	3	16	1795	0	0	1795	3413	53%	47%	112
Total	241	81	322	15384	576	1549	17509	32990	53%	47%	54
				%	%	%	%				
				88	3	9	100				

Average Inv. per project = LS 102,000

Average employment = 5975/322 = (19)

TABLE 8.10

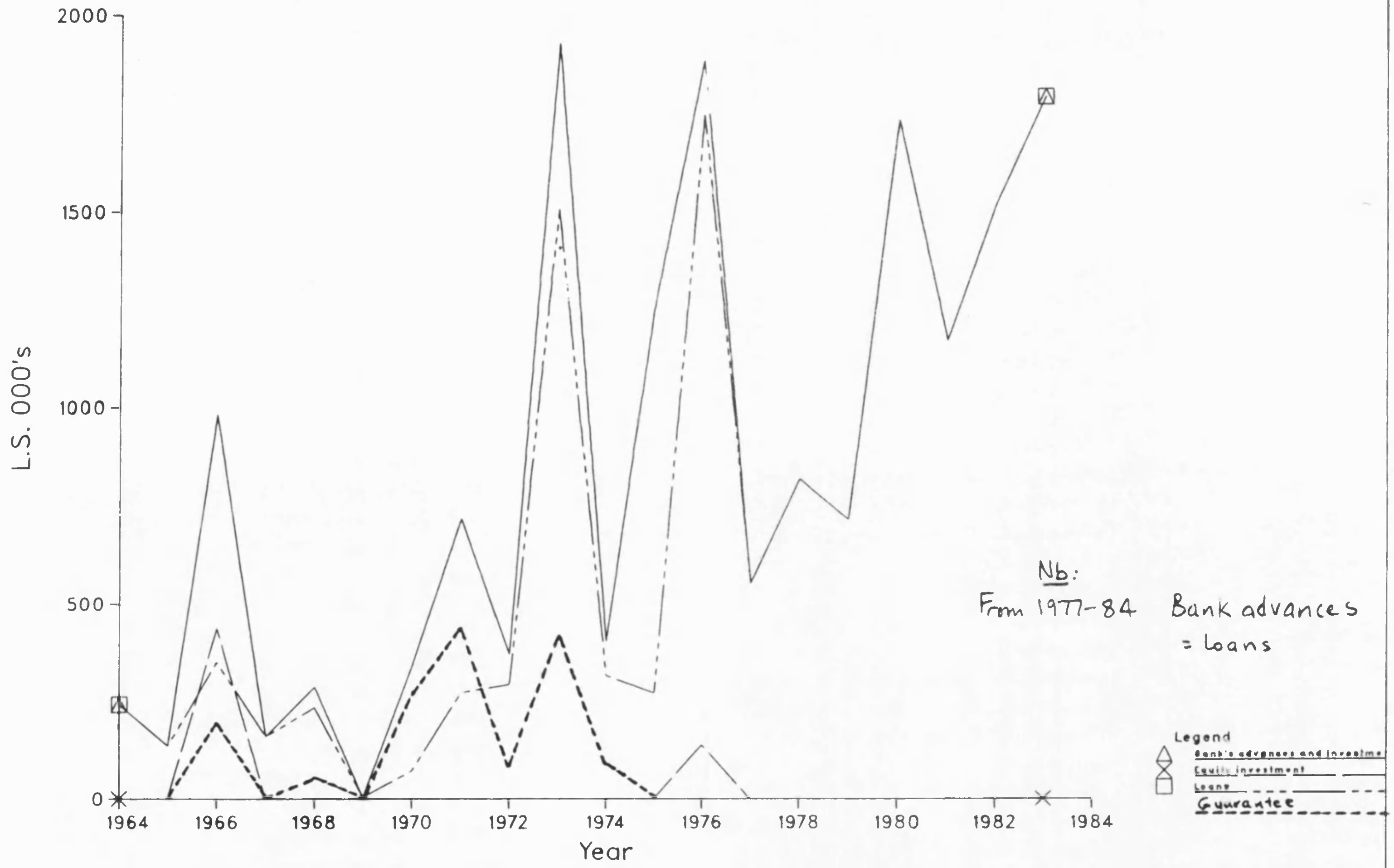
CALSSIFICATION OF S.I.BANK ADVANCES BY SIZE OF THE FIRM 1962-1983

Year/Range OF Employment	1962	63	64	65	66	67	68	69	70	71	72	73	74	75	76	77	78	79	80	81	82	83	Total No	Total %
Less than 10	1	5	7	2	4	5	2	0	1	5	4	5	1	0	4	3	11	9	4	8	12	5	98	30%
10 - 20	2	4	3	2	5	4	3	1	2	2	7	3	6	2	3	2	1	6	10	9	9	2	88	27%
21 - 30	1	6	5	3	3	4	5	0	3	8	0	1	0	1	2	1	3	2	0	2	6	5	61	19%
31 - 40	1	1	0	1	5	2	1	0	0	3	0	4	5	2	2	4	0	3	3	1	1	3	42	13%
41 - 50	0	1	1	0	1	0	2	0	0	0	1	0	0	2	0	1	0	0	4	2	1	1	17	5%
Over 50	0	0	0	0	1	2	2	0	0	1	0	2	0	3	1	1	2	0	0	1	0	0	16	5%
10 - 50	4	12	9	6	14	10	11	1	5	13	8	8	11	7	7	8	4	11	17	14	17	11	208	65%
T No Of Loans	5	17	16	8	19	17	15	1	6	19	12	15	12	10	12	12	17	20	21	23	29	16	322	100

Range: 10 - 50 65%
1 - 50 95%
Over 50 5%

(at time of loan application)

Fig 8–8: Analysis of the Sudanese Industrial Bank S.I.B. Advances by type of loans. 1964–1983



To examine the role of the SIB in financing small business, table (8.10) shows that 95% of the firms received finance from the bank were employing less than 50 employees at the time of application. This was an indication that the SIB servicing small business sector without a preceded policy.

The main difference between the SIB and the traditional commercial banks consists of the fact that SIB does not seek deposits from individual or other bodies. Instead, it relies mainly on aid from the Government in the form of equity, representing 58% of the total financial resources, and aids and loans from foreign agencies with an average of 42%. (see table 8.11 and figure 8.9). The table and figure show that the financial resources were very meagre, and this calls in question of the degree of autonomy maintained by the bank so as to raise funds from abroad. The field work provides evidence that the bank was under the direct control of the Ministry of Finance, as absolute owner of the bank. This sort of link, between Government and development banks, was viewed and interpreted by some scholars (Park, 1979, Rayner 1980), as Government interference, which had an adverse effect on the operation of the bank. Ansong (1980) discounted the fear of Government interference; arguing that:-

> "Whatever form development banks take, they can not operate in isolation, and they require Government support and encouragement to function effectively."

In determining the lending capacity of the SIB, as a means of examining the ability of the bank to provide finance to industry, a ratio of 90% of the equity and other foreign aids to actual loans and advances was used.

Fig 8–9: Analysis of the Sudanese Industrial Bank's Financial Resources in the period, 1964–1983

Table 8.11 and figure 8.10 show the size of un-utilised loan capacity maintained by the bank between 1964 and 1983 (20 years). The table shows a surprising result, that there was a large sum of un-utilised capacity with the SIB during the period 1964-1977, averaging 17%. Table 8.12 on the range of un-utilised capacity, shows that it ranged between 10% and 30% during the period 1964-1977. Tables 8.11 and 8.12 show that the degree of loan capacity utilisation was very high during the periods 1978-1983, with insignificant idle capacity (4%). This variation in the degree of loan capacity utilisation could be explained by a marco-economic factor, embodied in the continuous devaluation of the Sudanese currency (June 1978 onwards) and its consequential inflationary effect.

> "The devaluation of the Sudanese pounds has led to a drastic increase in cost of imported machinery, and raw materials. Consequently the capital expenditure needed to establish an indistrial enterprise soared dramatically in terms of local currency, causing discouragement to investors. This has manifested itself quite clearly in the operations of the Bank which had concentrated more on small ventures using locally produced materials.(SIB Report 1982)

The existence of un-utilised loan capacity with the development bank (SIB) is much more disturbing than the situation at the commercial banks, which are normally bound by the deposit portfolio. The existence of small business finance gap, in conjunction with the un-utilised capacity of the SIB, was an indication of small business policy gap. Although the un-utilised capacity of the SIB was very low, in relation to industry demand nevertheless it was a good indication

LS 000's

TABLE 8.11

FINANCIAL ABILITY, LENDABLE AND USED LENDABLE CAPACITY OF SIB

1964 - 1983 - 20 years

BALANCE SHEET DATA (HISTORICAL)

Year	Financial Res			L Cap 90% of F.R.	Loans Provided				Used Cap	Unused Cap
	Equity	Loan	Total	90%	Loans	Eq. Inv	Guar	Total	%	%
1964	822	500	1322	1190	393	438	-	831	70	30
1965	986	500	1486	1337	585	438	-	1023	77	23
1966	1358	500	1858	1672	1132	438	-	1570	94	6
1967	1357	500	1857	1671	988	438	-	1426	85	15
1968	1753	70	1823	1641	1281	-	-	1281	78	22
1969	1953	70	2023	1821	1455	-	-	1455	80	20
1970	2059	66	2125	1913	1700	-	-	1700	89	11
1971	2383	81	2464	2218	1394	445	-	1839	83	17
1972	2146	72	2218	1996	1460	445	-	1905	95	5
1973	2678	51	2729	2456	1372	445	-	1817	74	26
1974	2711	135	2846	2561	1594	445	-	2039	80	20
1975	3242	1139	4381	3943	2755	445	-	3200	81	19
1976	3280	1363	4643	4179	3425	445	-	3870	93	7
1977	3870	2077	5947	5352	4180	583	-	4763	89	11
1978	3908	3988	7896	7106	6388	907	-	7295	103	(3)
1979	3922	6058	9980	8982	8291	988	-	9279	103	(3)
1980	3994	6321	10315	9284	7863	583	-	8446	91	9
1981	5263	6605	11868	10681	9095	583	-	9678	91	9
1982	6863	6599	13462	12116	10106	583	-	10689	88	12
1983	5448	6800	12248	11023	10447	583	-	11030	100	0
Total	59996	43495	103491	93142	75904	9232	-	85136	91%	9%
Average	3000	2175	5175	4657	3795	462		4257	91%	9%

Fig 8-10: The lending capacity and advances
S. I. B. , 1964-1983

TABLE 8.12

RANGE OF UN-UTLISED CAPACITY (SIB)

Range of un-utilised capacity	% per year	
	No.Y.	%
1964 - 1983 (20 years)		
More than 30%	-	-
30 - 20%	6	30
19 - 10%	6	30
Less than 10%	8	40
	20	100
1964 - 1977 - Before 1st Devaluation. 14 Years		
More than 30%	-	-
30 - 20%	6	43
19 - 10%	5	36
10% and more	11	79
Less than 10%	3	21
1978 - 1983 - After 1st Devaluation. 6 years		
More than 30%	-	-
30 - 20%	-	-
19 - 10%	1	17
10% and over	1	17
Less than 10%	5	83

of the bank's attitude towards small business financing. The existence of un-utilised capacity with the development banks in Africa, was attributed to the fact that they are still relatively new kind of institutions. (Olyampia 1978).

The credit squeeze system imposed by the Central Bank on commercial banks operations had an indirect effect on the operation and performance of the SIB. The credit squeeze system has affected the productivity of existing units, and eventually the level of collection of outstanding loans.

Table 8.13 shows the number of manufacturing firms applying for SIB finance was very low, averaging 22%. This could be attributed to lack of information. (see chapter 5, table 5.15). Table 8.13 and figure 8.11 shows the degree of loan rejection for the periods 1962-1983. They indicate that the rate of loan rejection was very high with an average of 85%. The Director of The Technical Section (SIB) said that:

> "Applications were either cancelled or rejected, generally on account of inadequate information being submitted; because applicants were unable to raise the legal minimum capital contribution, because some projects were not viable, or because the bank was not prepared to expend its investment in a certain outlet."

According to its bye-law, the bank may not invest, by loans or guarantees, in any one private industrial enterprise, more than the following percentage of its subscribed and fully paid up share capital, of its reserves and of its loan capital:

a) 15%, if the private industrial enterprise is owned and and operated by a co-operative society, or a limited company.

b) 10%, if the private industrial enterprise is owned by a partnership.

c) 7% in all other cases.

This financing strategy is based on the assumption that the applicant is able to participate in start-up capital, and is thus contradictory to the state of the art, as explained in Chapter five (5.1.1.).

As to conditions of financing, the bank requires security for any loan or guarantee it issues. Thus, the factory building, fixed plants and machinery, are subject to a first mortgage for the period of the loan. It was stated in the bank policy that the total value of the mortgage item under both Islamic and interest-based system, should not be less than 120% of the approved loan, otherwise an extra mortgage was required. Moreover, the plant should be insured in favour of the bank throughout the period of the loan. This was an indication that the SIB is security-oriented, and questioned critically the demarcation line between the conventional commercial banks and development banks in providing development finance to small business.

The other factor, which challenges the philosophical foundation and theoretical justification of the development banking system is the cost of finance. The interest charged by the Bank under interest-based system (1962-1983) was 8½% on medium term loans (ie 2 to 6 years) and at the rate of 9½% on long term loans (ie 6 to 15 years) in 1970. The rate of interest was increased to 14% and 15½% in 1980 respectively. In 1982, and according to The Central Bank directives, the cost of finance was increased to 17% and 21% respectively. In 1984 (February), the Bank's Act and Bye-Laws were amended so

TABLE 8.13

THE SUDANESE INDUSTRIAL BANK LOAN APPLICATION AND REJECTION

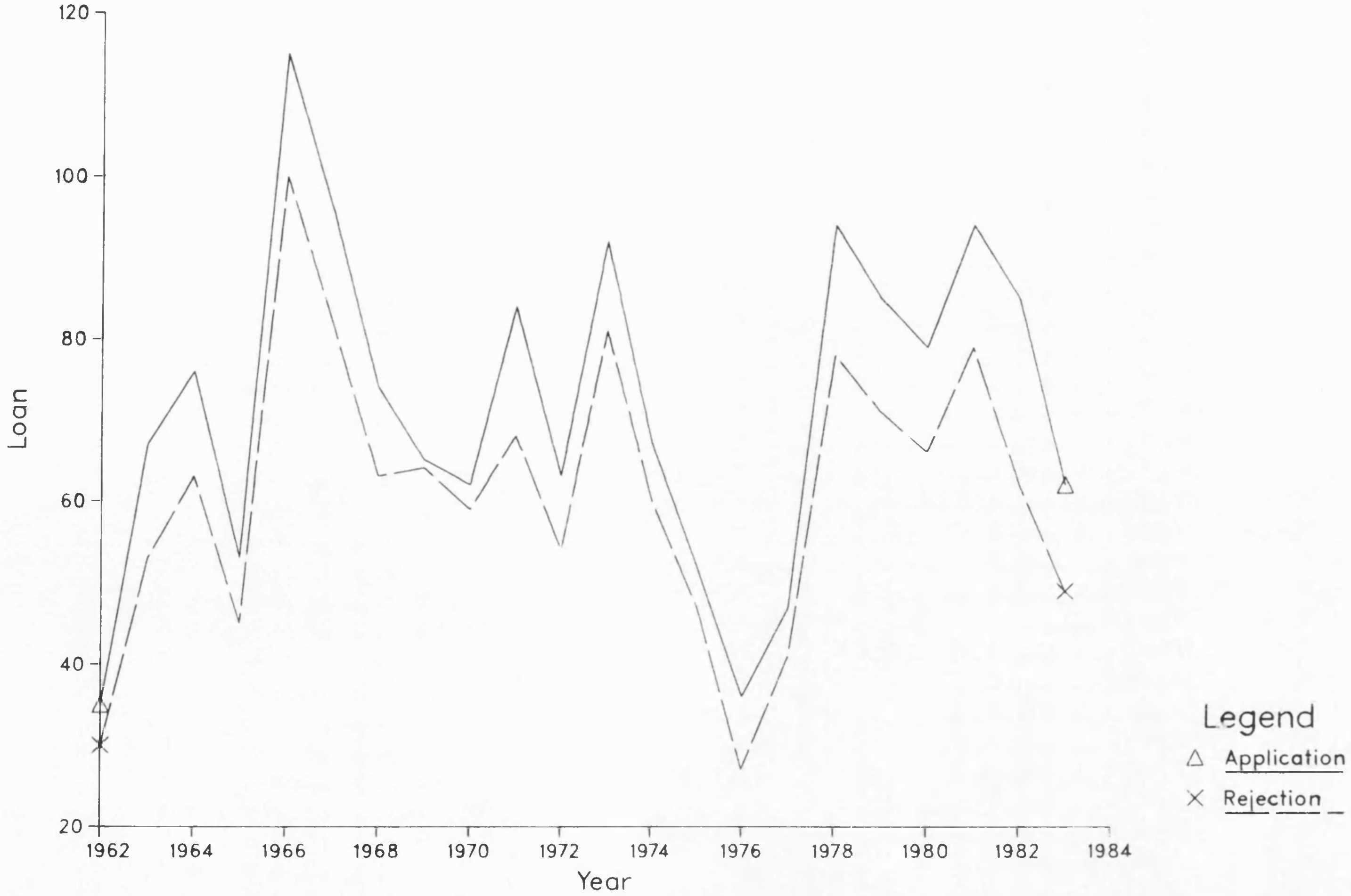
	62	63	64	65	66	67	68	69	70	71	72	73	74	75	76	77	78	79	80	81	82	83	Total
No of applicat	35	67	76	53	115	96	74	65	62.	84	63	92	67	52	36	47	94	85	79	94	85	62	1583
Acceptance	5	14	13	8	15	15	12	2	3	16	15	11	13	8	12	9	16	14	13	15	23	13	244
Rejection	30	53	63	45	100	82	63	64	59	68	54	81	60	47	27	41	78	71	66	79	62	49	1342
Acc.Rate %	14	21	17	15	13	15	15	2	5	19	14	12	10	10	25	13	17	16	16	16	27	21	15%
Rej.Rate %	86	79	83	85	87	85	85	98	95	81	86	88	90	90	75	87	83	84	84	84	73	79	85%
Appl.New & Supp.Loan	35	70	79	53	119	99	78	65	65	87	66	96	72	57	39	53	95	91	87	102	91	65	1664
Approval (Total)	5	17	16	8	19	17	15	1	6	19	12	15	12	10	12	12	17	20	21	23	29	16	322

Acceptance Rate 15%

Rejection Rate 85%

N.B. No data on app for supp loan;
Ass all supp loan approved; data (1-5)

Fig 8–11: The Sudanese Industrial Bank
Loan Application and Rejection, 1962—83



as to conform with Islamic and Sharia code. The Bank started lending money on long term Murabaha and Musharaka terms based on a penalty in case of delay or default. The profit margin or 'Hamish' charged by the bank is within the range of 17 and 21% under Murabaha finance and range of profit-sharing is between 30% and 40% under Musharaka finance. Moreover, commitment charges at the rate of ½% per annum were charged on the signature of loan agreement.

Although the cost of finance charged by the bank was slightly less than those charged by the commercial banks, it was very high compared to other countries (see Chapter 7). The higher cost of finance accompanied by stringent security was a good confirmation of small business difficulties in raising institutional finance in The Sudan (Chapter 7 -Finance Gap).

8.3.2. The Sudan Rural Development Finance Company (SRDFC)

The Sudan Rural Development Finance Company (SRDFC) was formed in 1981, as a subsidiary company of the Sudan Rural Development Company (SRDC) with an authorised capital of L.S.10 million. The company became operational in 1982, with an issued capital of L.S.3.20 million (32%) in ordinary share capital. The L.S.3.20 million was subscribed 60% by European and 40% by Sudanese parties. The objective of the company, as stated in the Articles of Association, is as follows:-

> "The aim of the company is to meet the needs of medium and long term capital finance, as well as technical assistance to commercially viable small and medium scale enterprises, principally in the private sector."

The initiation of this scheme by conventional commercial banks operating in the Sudan and foreign overseas financial bodies, was a confirmation and recognition of the financial difficulties small firms face, in raising and securing institutional long term finance from conventional financial bodies. This sort of institution is similar in principle and theory to ICFC (U.K.) and SBA (U.S.). The main difference between SRDFC and ICFC and SBA, lies in the fact that the two last were built round a comprehensive research work and consequent detailed policy under Government's sponsorship, whereas the former was established by foreign and domestic owners with an objective of financing commercially viable projects. This difference implies the existence of a small business conceptualisation gap in The Sudan.

With regard to the definition of what constitutes small business, the company has not maintained a clear and precise definition. The definition used by the company was built round the volume of finance and geographical area.

The operations and financing of the 'SRDFC' are limited by geographical coverage, in the sense that company financing can be made in any rural area or town except Greater Khartoum (capital). This factor constitutes the uniqueness of the SRDFC. This policy was initiated as a development factor to equalise the distribution of resources such as Welsh and Scottish Development Agencies in the U.K. and Irish Development Authority (IDA) in Ireland.

The SRDFC extends finance in the form of equity participation, Murabaha or other forms and combinations thereof which conform to Sudanese law. In financing under Sharia code, the Murabaha loan agreement has been selected as financing instrument.

> "In 1984, a form of Murabaha loan agreement had been selected, whilst, perhaps not ideal for long term development finance, allowed the company to proceed with lending .....
> ...... The Civil Transaction Act introduced in February 1984, which initially gave the impression that the limited liability concept would cease to exist....
> ....Management of RDC and RDFC agreed that caution must be exercised in consideration of equity investment in project."
> (A.Report, 1984)

The SRDFC's finance could be in foreign or local currency or a combination of both. The question here is of whether to lend in foreign currencies, where overseas equipment and machinery requires the use of such funds, or in the Sudanese pounds. The prevailing exchange rate (market rate) was used by the company in calculation of loans at the repayment time. This practice proved discrimination of small business, in favour of large businesses, which were successful in raising institutional long term finance from conventional institutions at official exchange rate (see Chapter 5).

The following limits are observed as a guideline for the size of enterprise qualifying for SRDFC finance:

- SRDFC finances up to 50% of total project cost.
- SRDFC maximum investment, per project, is US$500,000. However, investment by third parties - alongside SRDFC and the project sponsor himself - is encouraged by the management of the company. Within the maximum ceiling of financing, the financing power of the management of the SRDFC could be defined as follows:

- up to $30,000	General Manager
- up to $100,000	Finance Committee
- up to $100,000 to $500,000	Board of Directors

The SRDFC's financing strategy, being of a long term nature, is a good vehicle to eliminate or close the identified small business finance gap. The main limitation of this financing strategy, is that the company provides finance only to an entrepreneur who is able to raise 50% of the total cost. Moreover the SRDFC is itself operating with meagre financial resources.

Table 8.14 shows that SRDFC finance mainly for small agricultural and industrial establishments, with an average of L.S.235,000 finance per project. The survey shows that the SRDFC finance mainly for newly established projects, and against fixed assets purchase and initial working capital to assisted companies. The table shows that the number of firms receiving finance from the SRDFC - small manufacting firms - was 7, representing 1% of the total small manufacturing firms. The table shows also the degree of un-utilised capacity within the SRDFC in its first two years of operation (27%) (90% of total resources) The degree of un-utilised capacity (27%) could be justified on the ground that the SRDFC was at an early stage of business operations, with a conservative attitude.

In determining the cost of financing in SRDFC, volume, type of finance, term of financing and the repayment period were used as yardsticks. The cost of finance was calculated on

TABLE 8.14

ANALYSIS OF SRDFC FINANCING IN 1984/1985

Project Co. fin. 1984						Proj. Co. fin. 1985/(6)						Project app. for fin. 1986					
S. Manf.		S. Ag.		Total		S. Manf.		Ag. small		Total		S. Manf.		S. Ag.		Total	
No. P.	Amt.	No. P.	Amt.	No. P.	Amt.	No. P.	Amt.	No. P.	Amt.	No. P.	Amt.	No. P.	Amt.	No. P.	Amt.	No. P.	Amt.
5	1292	1	214	6	1506	2	446	1	161	3	607	6	1308	-	-	6	1308

LS 000's	1984	1985	1986
SRDFC's Financing	1506	607	2113
Capital of Co(Paid up) (FR) at disposal	3200	1374	3200
Lendable capacity (90%)	2880	1237	2880
Un used lendable (capacity)	1374	630	767
Un used capacity (%)	48%	51%	27%
Used capacity (%)	52%	49%	73%

Total No of projects financed 9 projects (small)

Average = LS 235,000

simple annual rate. The financing under Murabha instrument was based on predetermined cost, accompanied by the penalty charge over delay or default. This practice is a violation of Sharia code and principle. The cost of finance schedule stated in the policy of the company could be summed up as follows:-

Table 8.15

SRDFC - Cost of Financing Schedule

No	Amount L.S./ $	Repayment period	Fixed charge per annum
1.	Less than LS 250,000	1-12 months	20 - 25%
2.	Less than LS 250,000	13-25 months	26 - 30%
3.	Less than LS 250,000	26-30 months	31 - 40%
4.	More than LS 250,000	Short period	20 - 25%
5.	More than $100,000 and the payment will be in US$, at exchange rate prevailing at due date, regardless of the repayment period.		18%
6.	More than $100,000 and the payment will be made at the exchange rate prevailing at time of dispersment		20 - 25%

Regarding delay in payment or loan default, the company charged the client 25% as cost of finance for the first two months, 40% for delay period of two to six months and 50% for more than six months as a penalty, regardless of the financing mechanism used.

Table 8.15 shows a most surprising result, that challenges the theoretical foundation of SRDFC as a development agency, in the sense that the cost of financing charged by the company was higher than those charged by traditional and conventional commercial banks.

The loans and financing provided by SRDFC are usually secured by mortgage deeds and guarantees from third parties. For small projects needing less than $30,000, post-dated cheques, followed by guarantee from a commercial bank or reputable third party are acceptable as security. For all loans exceeding $30,000, loans are provided against mortgage deeds exceeding 200% of the amounts of funds provided.

From this review, a principal inference can be drawn that, the operation and financing practice of SRDFC has inharmonious features, in the sense that the company was established with a positive bias towards small business financing, whereas its financing practice, in terms of cost of finance, conditions of financing, provide confirmation of the existence of small business finance gap in The Sudan.

8.3.3 Sudan Islamic Investment Company (SIIC)

The Sudan Islamic Investment Company was formed in 1982 as a private limited company, owned by Faisal Islamic Bank (Sudan) and 'Dar Al Mal Al Islami', with an authorised capital of US$10 million. The company became operational in late 1983 with an issued capital of $3 million (LS7.5 million), subscribed by owners on equal ratio. The company was set up to:-

1. Accumulate Muslim's savings and to invest them according to Sharia code.

TABLE 8.16

ANALYSIS OF S I I C FINANCING

L.S 000's

	Mudaraba No 1	%	Mudaraba No 2	%	Mudaraba No 3	%	Mudaraba No 4	%	Total	%
Small manf F.	421	35	520	16	1747	50	2747	69	5435	46
Large Manf F.	750	63	2526	79	1617	46	950	24	5843	49
Other sectors	26	2	140	5	137	4	303	7	606	5
Total	1197	100	3186	100	3501	100	4000	100	11884	100
Total value of Sukuk el Mudaraba	1209		3193		3501		4000		11903	
Un-used Suk. Res	12		7		-		-		19	
% of un-used	1%		22%						16%	

Capital of SIIC.	3000	
Total Fin Res (4 Mudar.)	14903	
Res. invested	11884	
Lendable cap 90% of Fin Resources	13413	
Un-used lend capital	1529	
% of un-used	11%	

2. To participate in economic development of the Sudan, and
3. To improve and enhance savings and investment behaviour of the Muslim community (the Article of Association).

The company as a financier, operates its business as 'Mudarip' by issuing 'Sukok Al Mudaraba' to the public at large. Thus, the financing of the company was tailored round 'Sukok Al Mudaraba'. It was stated in the company policy that Sukok Al Mudaraba is for one year, which enables the company to make an investment within one year out of Al Mudaraba resources.

The company provides finance under Musharaka, against re-evaluation of assets as a security for the company investment. The cost of finance is embodied in the profit sharing agreement, which in most cases is distributed 45% for the company and 55% for the client for profit not exceeding LS400,000 and 25% and 75% respectively for profit more than LS400,000. Under Musharaka agreement losses are distributed accordingly to the share in the capital of operation.

Table 8.16 shows that the SIIC financing was mainly devoted to large enterprises (49%) rather than small manufacturing firms. This was attributable to the security provided by large firms to the company in a position of "Mudarip". The table indicates that all company investments were within the financial resources generated from the issuing of Sukok, which means that the equity of the company remains as un-utilised funds, implying the conservativeness of the company.

8.4 PROCESS OF CHANNELLING FUNDS TO CLIENTS

Small and large firms sample (demand-side) reported that documentation relating to the previous year's accounts was very important in raising institutional finance, apart from other factors (chapter 7). The objective of this part of the chapter is to examine to what extent this contention holds true in the financial institution practice. Thus, the focus is on the process used by banks in providing funds to clients, as regards the level of documentation required, monitoring techniques employed and the quality of advice provided by banks to small business.

8.4.1 Level of Documentation

The commercial and development financial institutions as well as the Central Bank, reported that documentation is very important in providing funds to clients.

> "A very good financial control system assists bankers to assess properly the financial position of the client, so the more adequate the financial control system, the more the chance for the client to get credit facilities. This applies even for credit facilities less than the Bank of Sudan Financing Approval". (N.B.)

Table 8.17 shows that the historical financial statement for the previous year, documentation on guarantee, and value of security, were ranked as most important pieces of information in providing funds to clients, regardless of the size of the business. This finding is consistent with that derived from the opinion of small and large firms (Chapter 7, table 7.10). The table shows that all responding financial institutions, except the Central Bank, give more consideration to information on applicants - external information - as a part of the process of financing decisions. The table illustrates that Development Financial Institution (DFI), as provider of medium and long

TABLE 8.17

LEVEL OF DOCUMENTATION NECESSARY FOR THE BANK
TO PROVIDE FINANCE

Level of Doc:	Nil. Bank	B. Kh.	SIB.	C. Bank	FIB.	TIB.	Abu DB.	Int. Bank	SRD.	SIIC	Total No	Total %
P/L & B/sheet last yr	x	x	x	x	x	x	x	x	x	x	10	100
Proforma invoice	x	x	–	–	x	x	x	x	–	x	7	70
Type of operations	x	x	–	x	x	x	x	x	–	x	8	80
Statement of affairs	x	x	–	–	x	x	–	x	–	–	5	50
Approved licence	–	–	x	x	–	x	–	–	x	x	5	50
Doc. on guarantee	x	x	x	x	x	x	x	x	x	x	10	100
Letter of guarantee	x	x	–	–	x	x	–	–	x		5	50
Name of management	–	–	x	x	–	–	x	–	x	x	5	50
Shareholders	–	–	x	x	x	x	x	–	x	x	7	70
Report from Banks	–	–	–	–	x	–	x	–	x	x	4	40
Registration Cert.	–	–	x	–	x	–	–	–	–	–	2	10
Production & sales pl	x	–	x	x	–	x	x	–	x		6	60
Feasibility study	–	–	x	x	–	x	–	–	x	x	5	50
Inf on applicant	x	x	x	–	x	x	x	x	x	x	9	90
Business C.Flow	–		x	–	–	–	x	–	x	x	4	40
Value of security	x	x	x	x	x	x	x	x	x	x	10	100
Profitability of operation	x	–	–	x	x	–	–	x	x	x	6	60

term financial facilities, laid stress on future operation of the business, in terms of sales, production plan and cash-flow analysis.

In response to the question on the degree of importance of documentation in providing funds to clients, all banks reported that documentation was very important in channelling all types of finance. The survey shows that the minimum level of documentation required by banks was a summary of of requirements in terms of proforma invoice, actual financial statements; whether statement of affairs or balance sheet, and information on applicant personally and through banking system enquiry.

Table 8.18

Degree of Importance of Documentation in Channelling Funds to Clients

Bank / Type of Finance	Nil. B.	Khar. B.	SIB.	B. of Sud.	FIB.	TIB.	Abu Dah.	Int. Bank	SRD. FC.	SIC.	A + B Total No.	A + B Total %
Marabaha	A	A	A	A	A	B	A	A	A	A	10	100
Musharaka	A	A	A	A	A	A	NA	NA	NA	A	7	70
Mudaraba	NA	NA	NA	A	A	A	NA	NA	NA	NA	3	30
Overdraft	A	A	NA	A	NA	NA	A	A	A	NA	6	60
Long t. loans	A	A	A	A	A	A	A	A	A	A	10	100
Med. term loans	A	A	A	A	A	A	A	A	A	A	10	100

A Very important

B Important

C Not important

NA Not applicable

This observation questioned critically to what extent small business could satisfy the financier by providing information, or in other words is the financial control system responsible for the identified finance gap. However this observation provides evidence of interaction between financing and financial control.

8.4.2 Financing Follow-Up and Monitoring Techniques

It was established that the project monitoring and financing follow-up of development banks goes way beyond conventional follow-up in the sense that development banking differs from traditional banking. (Gupta 1979). Punja (1979) stated that:- "Experience in development banking has reinforced the belief that no development bank could be effective without the machinery for effective follow-up of assisted projects." On Islamic banking practice, Salāma (1984) stated that:-

> "A vigilent monitoring of investment is a must for for the success of profit-sharing systems; the supplier of funds under this system has a vital interest in the venture, as he will not have a stipulated interest at the end of the year. For the successful operation of profit-sharing system, any finance supplied or any operation executed, should be brought to an end within the agreed period, any delinquecy or delay in the execution will involve a loss to the supplier of capital, it is in the interest of the supplier of capital to see to it that the project is executed as scheduled ....".

It was argued that the staff members in the bank responsible for project appraisal should not bear responsibility for following up these projects, because they might not be able to identify their own mistakes (Simba 1979). It was observed that this sort of separation was adopted in development agencies and Islamic banks.

TABLE 8.19

MONITORING TECHNIQUES EMPLOYED BY FIN. INST. IN SUDAN

	El Nilien Bank				Bank of Khartoum				Abu Daha. Bank				Sudan Inter. Bank				Fiasal Islamic Bank				Tadamon Islamic Bank			
Monitoring Techniques	MR	MS	O/D	LT	MR	MS	O/D	LT	MR	MS	O/D	LT	MR	MS	O/D	LT	MR	MS	O/D	LT	MR	MS	O/D	LT
Letter of Trust	x				x																			
Control of Goods (Pledge)	x				x	x			x				x		x		x				x			
Control of Security	x	x	x	x	x	x	x	x	x		x	x	x		x	x	x	x		x	x			x
Control of mortgage	x	x		x				x	x		x	x	x		x	x		x		x				x
Post dated cheque	x				x				x				x				x				x			
Continuous reporting on op.		x				x		x					x			x		x		x		x		
Involvement in Management																		x						
a) Board of Director level		x				x												x						
b) Operational level																		x						
c) Accounting level																		x				x		
Design of acct. & report system																		x				x		
Snap shot visit	x	x		x	x	x												x				x		
Appointment of manager																		x						
Continuous follow up		x																x				x		
Periodical Report		x																x				x		
Stand by security																								
Promissory note					x	x		x	x		x	x	x		x	x								
Penalty	x			x	x	x		x	x		x	x	x		x	x								

Monitoring Techniques	Sudan Rur. Dev. F. Co				Sudan Int. Bank				Sudan Islamic Inv. Co.			
	MR	MS	O/D	LT	MR	MS	O/D	LT	MR	MS	O/D	LT
Letter of trust												
Control of Goods (Pledge)												
Control of Security	x	x	x	x	x	x		x		x		x
Control of mortgage	x	x	x	x	x	x		x		x		x
Post dated cheque												
Continuous reporting on operation	x	x		x				x		x		
Involvement in management	x		x	x				x		x		x
a) Board of directors' level	x	x		x		x		x				x
b) Accounting level						x		x		x		x
c) Operational level						x		x				
Design of accounting & reporting system	x	x		x		x		x		x		x
Snap shot visit	x	x		x	x	x		x		x		x
Continuous follow up	x	x		x	x	x		x				
Periodical report	x	x		x	x	x		x		x		x
Appointment of management	x	x		x	x	x		x				x
Stand by security					x	x		x				
Promissory notes												
Penalty					x	x		x				
Legal contract	x	x	x	x	x	x		x		x		x

Table 8.19 shows that the control of the securities pledged was used by all types of banks for all types of financing instruments. Under Musharaka finance, banks play an active role in the management of the business, starting from snapshot visit, installation of accounting system, and appointment of bank representatives to an appointment of the top management of the business. The degree of involvement in the management of the business under Musharaka, depends on volume of transactions, and availability of management cadre.

The survey shows that Development Financial Institutions (DFIS) laid great stress on the management of the business. The Director of the SIB said that:-

> "It is needless to stress that the quality of management is a crucial factor in the success of ventures financed by the Bank. "Family" ownership and management is not an uncommon practice. Where competence of a management is seen to be doubtful, joint efforts should be exerted to recruit men of talent, experience and expertise. IBS should work out the modalities of a suitable arrangement in this regard."

The survey shows that DFIS not only exercised its control on financial and accounting systems, they went further in having an effect on the management of the financed firm.

8.4.3. Small Business Advice

The small business research sample, demand side, reported that there was lack of information and advice in the financial facilities available in the capital market. (See Chapter 7, part 7.6). On questioning what sort of communication channels are maintained by the bank and its clients, the survey provides evidence there was no specialised advice unit for providing information to clients.

> "It is the market of capital supplier, therefore there is no need to establish such unit in the bank."

The lack of financial information and advice in the banking system could be seen clearly in the result that 92% of the research sample - demand side - reported that they had no idea nor had they heard of the SRDFC or its financing activities.

The non-existence of the financial advice in the banking system problem can be compounded by the quality of entrepreneur and his inability to identify sources of information on alternative forms of financing. (see Chapter 9).

8.5 SUMMARY AND CONCLUSIONS

The analysis of the financial facilities provided by the commercial banks and their pattern of allocation, provides firm evidence that small manufacturing firms are at a disadvantage in terms of type of finance, volume of finance and conditions of financing. This finding provides a positive support to the third research hypothesis on the identification of the small firm finance gap from the supply side perspective.

Using a loan to deposit ratio, the survey proved that there existed large amounts of un-utilised loan capacity with the commercial banks in The Sudan. This finding was a good indication of the commercial banks behaviour towards small business financing. This could be explained by the fact that commercial banks were highly security concious and profit-oriented.

The empirical investigation provides evidence that the financing practice of development financial institutions violate the philosophical foundation and the theoretical justification of the establishment of development financial bodies by being both security oriented and profit concious. Thus, this study finding provides confirmation of Gravin (1970), Bird and Juttner (1974) and Knight (1983) observations that the small business financing gap is created partially by the capital market operation.

The examination of the financial institutions policies, proves that there was small business conceptualisation and a policy gap in the banking system. Regarding information and advice on financial facilities, the analysis of the supply side result is consistent with the inference derived from the opinion of the demand side, leading to a principal premise that there is a "Bolton" gap in the Sudan. The information and advice gap was a direct consequence of the policy and small businesses institutional gap in the Sudan.

Regarding the relationship and interaction between financing and financial control, the research work based on supply side opinion extends support to Bolton (1971) and Ray and Hutchinson (1983) that there is an interaction between financing and financial control. Thus, it provides confirmation of the study analytical framework (Chapter 3) and positive support to the research hypothesis (Hypothesis 5).

The point of strength in this study, apart from the methodological strength is embodied in the consistency of findings derived from the supply and demand side. How to close or to eliminate the identified gaps is a matter of policy, which will be discussed in Chapter 12.

Given small business financial profiles and identified gaps, a focal point needs to be raised in this scholary process is what type of tycoon and entrepreneur guides and manages this profile. To this point we direct attention now.

CHAPTER NINE

THE SUDANESE MANUFACTURING ENTREPRENEUR

There appears to be a growing awareness among both economists and policy makers that entrepreneurship is a critically scarce resource in many parts of the world, and that its appearance cannot be attributed entirely to the presence of economic opportunities. (Arthur, Cole, 1940). Baumol (1968) articulated that: "encouragement of the entrepreneur is the key to the stimulation of growth ... the policy maker thus is interested primarily in what determines the supply of entrepreneurship and in the means that can be used to expand it".

Carroll, J.J. (1965) added that the entrepreneur in a developing economy is a powerful agent of change, not only of economic change but also of the social change which almost inevitably accompanies it. Most of the writers on economic development of underdeveloped countries, assert that underdeveloped countries suffer from a deficiency in dynamic entrepreneurs and the entrepreneural class pointed out by McClleland and Hagen is almost non-existent in most of the poor countries (Awad, 1979). Broehl (1983) added that the entrepreneual process in the less developed world is impeded by the conflicts of old and new.

Another advanced case for modern small scale enterprises in developed and developing countries runs in terms of their contribution to the development of entrepreneurship (P. Neck, 1977; V. Patel, 1977; Churchill and Lewis, 1983; and Knight 1984). Timmons, J.A. (1984) rightly argued that:

"<u>Central to nearly all models of venture creation is the individual entrepreneur as a catalyst, energizer, project champion, innovator, creater and team leader</u>".

Policy makers wishing to foster entrepreneurship seek to identify the entrepreneur. Financiers recognise that they are essentiallyy financing people, but what characteristics of entrepreneurs? Management development institutes desire to develop an entrepreneur, but what are they? and what are their training needs? This part of the study is attempting to provide understanding of the Sudanese entreneurs (elusive heffalump), as one of the facets of a small enterprise development model.

It was established in the body of knowledge that the motive of an entrepreneur for going into business often determines how he finances and runs the business. It was also asserted that age, level of education, occupational origin, industrial experience and social factor interm of family are an important determinant factors of entrepreneur performance in managing and developing the business (Broehl, 1984; Kuriloff, 1979).

To find out the Sudanese experience the Chapter is organised as follows: Part I provides outlines on the Sudanese entrepreneurship and motivation for setting up the business and its relationship to occupational origin and previous experience. Analysis of the profile of entrepreneur including age, level of education, experience, occupational origins and family as a social factor is presented in Part II. Part III gives an outline of entrepreneurial management attitude, and the concluding section summarises the results and discusses implications of the major findings.

9.1 ENTREPRENEURIAL MOTIVATION

McClleland (1961) and Atkinson (1964) have developed a theory of psychological motivation that has been widely used in the study and practice of management and entrepreneurship (Timmons, Smollen and Dingee, 1977). The theory of psychological motivation suggests that people are motivated by three principal needs:

(a) the need for achievement (n Ach),
(b) the need for power (n pow), and
(c) the need for affiliation (n Aft).

(Timmons, 1985). In addressing the issue of small enterprise development in the U.K., Bolton (1971) argues that:

> "The desire for independence appears to be overriding and indeed may on occasions even operate against their own interest ... many businessmen in small firms recognise that money is not their prime motivation".

Dunkelberg and Cooper (1984) and other writers provide confirmation to Bolton finding, showing that entrepreneurs are independence oriented in forming their businesses. A number of writers including Atkinson (1964), Timmons (1973) and Welsh and White (1983) on the other extreme asserted that money has a very special meaning to the successful entrepreneurs. Timmons (1978) articulated that:

"The entrepreneur is involved in a continous process of making money, going out and investing out in another company, and then starting all over again. The cycle never seems to end and the money is a way of measuring performance".

The evidence from this research was on small firms at inception and growing stage of development and their large private enterprise counterparts provide confirmation to Timmons (1978) and in some respect challenge the Bolton (1971) contention and statement. The vast majority of entrepreneurs in this survey (76%), ranked economic rewards as a most critical motivating factor in forming their business. Based on matrix analysis of the motivating factors reported and ranked by respondents, tables (10-1/a,b,c) show that family as a socio-economic factor has been ranked as a second motive for going into business, either to expand family business or to meet family demand. This finding was observed in Nigeria and The Philippines by Harris, (1974) and Carroll (1965) respectively. Family as a motivating factor stems from the fact 38% of company founders in this survey had parents, father or brothers who were company owners and belong to the family business. Borland (1974) found that the variable most commonly associated with a business student's declared entrepreneurial expectations was the professional independence of the student's father. (Shapero and Sokol, 1984).

In response to the question why did you decide to start this enterprise, 60% of entrepreneurs of the current starting-up small firms sample reported that industry is more profitable. The entrepreneurs of small growing firms had the same opinion. This finding based on the total sample of small firms provides a positive support to Timmons (1978) and other studies on entrepreneurship (Morris and Somerset, 1974; Finney, 1973 and Borland, 1974).

TABLE 9.1 -a

MOST IMPORTANT FACTORS WHICH MOTIVATED FOUNDERS TO SET-UP THE BUSINESS - CURRENT STARTING-UP SMALL FIRMS SAMPLE

"MATRIX REPRESENTATION"

	1	2	3	4	5	6	7	8	9	Total Score		
Motivating Factors:										No	%	RA-NK
1. Outlet for personal abilities	2	3	1-	1	-	-	-	-	-	55	11	3
2. Independence	-	3	1	-	-	-	-	-	-	33	6.4	6
3. Status	-	-	2	3	-	-	-	-	-	32	6.7	5
4. Job Satisfaction	2	-	1	-	1	-	-	-	-	30	6.2	7
5. Economic Rewards	16	1	1	1	1	-	-	-	-	170	35	1
6. Meet Family Demands	-	3	3	-	-	-	-	-	-	45	9.4	4
7. Expand and Diversify Family Business	-	5	4	1	-	-	-	-	-	74	15.4	2
8. Market Niche	-	1	-	-	-	-	-	-	-	8	2	9
9. Create Family Enterprise	-	2	-	2	-	-	-	-	-	28	5.8	8
10. New Company in the Field	-	1	-	-	-	-	-	-	-	8	2	10
TOTAL	20	19	13	8	2	-	-	-	-	481	100 %	
FAMILY (6 + 7 + 9)										147	30.6 %	

TABLE 9.1 - b

CURRENT SMALL GROWING FIRMS SAMPLE:

	1	2	3	4	5	6	7	TOTAL SCORE		
								NO	%	RANK
1. Outlet for personal abilities	-	3	2	1	-	-	-	34	10	4
2. Independence	2	1	1	1	-	-	-	29	8.2	5
3. Status	1	2	1	-	1	-	-	27	7.6	6
4. Job Satisfaction	1	1	2	1	-	-	-	27	7.6	7
5. Economic Rewards	14	3	1	1	1	-	-	128	36	1
6. Expansion and Diversification of Family Business	-	4	3	-	-	-	-	39	11	2
7. Meet Family Demands	-	-	2	1	1	1	-	19	5.4	8
8. Market Niche	-	1	-	-	-	-	-	6	2	9
9. Create Family Enterprise	2	2	1	1	-	-	-	35	10	3
10. Level of achievement is high	-	-	1	-	-	-	-	5	1.4	11
11. Successful Endeavour	-	1	-	-	-	-	-	6	2	10
TOTAL	20	18	14	6	3	1	-	355	100	
FAMILY (6+7+9)								93	26	

The large private enterprises taken as a contorl gorup in this study shared the opinion of small firm sample, that the economic reward is a most important motivating factor (35%). This could be explained by the fact that most of the large firm sample in this survey started very small under family domination (53%). The main difference between small and large sample reflected in the fact that less emphasis has been put on family dimension by large firms which started very large. This observation can be attributed to ownership structure of the firms. (see Table 9.1-c).

Based on the classification of entrepreneurs sample on occupational origins into those originated from family business or father business (58%) and those started from scratch as ex-employees or developed their business as traders from their personal savings (42%), in relation to the motivating factors, the analysis of the survey provides interesting results. The matrix representation of the motivating factors ranked and reported by entrepreneurs shows that the economic reward is the most prominent factor in both groups with a certain degree of variation in the weight. The economic reward has a higher degree of weight in the group of entrepreneur emerged and operated under the family umbrella or business (35%) than those started as an independent owner (28%). In studying the entrepreneurship in Taiwan, Giesbrecht (1968) observed that:

> "A person measures the success of his behaviour by how it influences the status of his family. Clearly, anything that would bring increased honour, power, pleasure, or income to the family would be worth striving for. And this is a good basis for the profit motive".

TABLE 9.1-c

LARGE PRIVATE ENTERPRISES SAMPLE

	1	2	3	4	5	6	7	8	TOTAL SCORE		
									No	%	Rank
1. Outlet for personal abilities	2	1	-	1	-	-	-	-	28	8.5	2
2. Independence	1	2	-	1	-	-	-	-	27	8.2	3
3. Status	-	-	-	-	1	-	-	-	4	1.2	14
4. Job Satisfaction	-	1	1	-	-	-	-	-	13	4	9
5. Economic Rewards	12	-	3	-	-	-	-	-	114	35	1
6. Meet Family Demands	-	1	-	-	-	-	-	-	10	3	10
7. Expansion and Diversification of Family Business	-	2	1	-	-	-	-	-	22	6.7	6
8. Create Family Enterprise	-	2	2	-	-	-	-	-	27	8.2	4
9. Ambitious	-	-	1	-	-	-	-	-	6	1.8	12
10. Family Image	-	-	-	1	-	-	-	-	5	1.5	13
11. Market Niche	-	2	1	-	-	-	-	-	20	6.1	7
12. Availability of R. Mats	-	2	2	-	-	-	-	-	26	7.9	5
13. Diversification of Busns.	-	1	2	-	-	-	-	-	19	5.8	8
14. New Industry in The Sudan	-	1	-	-	-	-	-	-	7	2	11
Total	15	15	13	3	1	1	1	1	328	100	
Family (6+7+8+10)		5	3	1		1	1	1	64	20	

The main difference between the two groups embodied in the fact is that those emerged from family business or connected to family business put more emphasis on family as a second motivating factor in terms of creating family enterprise, expansion and diversification of family business and meeting extended family demands (42.7%). By contrast, the other group of entrepreneurs maintained the desire for independence as a second motivating factor, in connection with job satisfaction, outlet for personal abilities and status (41.4%). Table 10.2-a shows that the desire for independence is not an important factor for an entrepreneur who emerged or belong to a family business with a score of 0.9%. The explanation of this observation is that this group of entrepreneurs is already independent, working for themselves and/or for their families. Thus the motivating factors in forming the business is determined partially by the occupational origin of an entrepreneur and to what extent they belong to family business.

It deserves to be noted that, despite the importance attached to independence by those who formed their business under no family umbrella (group -2), table 10.2-b shows that job satisfaction also seemed to be important with 8.8% score. Boswell (1971) identifies that:

> "<u>the emigration of frustrated men from corporations as a prime generator of new engineering and hosiery/knitwear firms in the United Kingdom</u>".

Shapero and Sokol (1984) observed in the U.S. that:

> "<u>job dissatisfaction of many kinds is mentioned with great frequency by company formers; they include boredom and what</u>

might be called technical frustration".

One of the entrepreneurs in the research sample told that:

"I entered the field of business to stand by my own, to build my image and reputation out of my business. Moreover, the government job was too narrow to embody my ambition and innovative ability".

The last rows of tables 10.2-a and 10.2-b show clearly the effect of occupational origin on entrepreneur motivation in forming a business. As has been explained before, the first group of entrepreneurs identified in this study put more emphasis on family dimension with (42.7%) score whereas the other group put emphasis on desire for independence, job satisfaction, outlet of personal abilities and status with (50.5%) score as motivating factors.

In response to the question on what currently is your motivation, small firm research sample put more emphasis on expansion and development of business activities and profit motive as an over-riding current motivating factor; (58%). 35 per cent of small firms at inception sample reported that continuity and survival in the market was the most important factor. This finding explained the difference between small firms at start-up facing a critical stage of development and established and growing firms (Churchill and Lewis, 1983). The vital and pertinent question to be raised in this context is to what extent the classification of entrepreneurs into two groups with a degree of variation in the motivation of forming business, can be explained by entrepreneurial profile measured into level of education, age, occupational origin and industrial experience. To this point, we direct attention now.

TABLE 9.2-a

MOST CRITICAL FACTORS WHICH MOTIVATED FOUNDER/S TO SET-UP BUSINESS

- EMERGED FROM FAMILY BUSINESS GROUP 1 32/55 = 58%

Matrix Representation

	1	2	3	4	5	6	7	8	TOTAL SCORE		
MOTIVATING FACTORS									No	%	RANK
1. Outlet for personal abilities	3	-	2	1	-	-	-	-	41	5.8	5
2. Independence	-	1	-	1	-	-	-	-	7	0.9	12
3. Status	-	-	-	1	1	-	-	-	9	1	11
4. Job Satisfaction	-	1	1	-	-	-	-	-	13	1.8	10
5. Economic Rewards	26	4	2	-	-	-	-	-	248	35	1
6. Meet Family Demands	-	4	2	-	-	-	-	-	47	6.6	4
7. Expansion and Diversification of F.B.	-	7	7	1	2	-	1	-	106	15	3
8. Market Niche	1	1	2	2	-	-	-	-	37	5	6
9. Create Family Enterprise	2	9	8	4	1	-	-	-	151	21	2
10. Level of Achievement High	-	-	-	-	-	-	-	-	0	0	0
11. Successful Endeavour	-	-	-	-	-	-	-	-	0	0	0
12. New Industry	-	2	-	-	-	-	-	-	14	2	9
13. Availability of R. Mats.	-	-	3	-	-	-	-	-	18	2.5	8
14. Diversification of Bus.	-	3	-	-	-	-	-	-	21	2.9	7
15. Ambitious											
TOTAL	32	31	25	13	6	1	1	-	712	100	
FAMILY (6+7+9)									304	42.7 %	
1+2 +3 +4									70	9.8	

TABLE 9.2-b

GROUP 2 23/55 = 42% (NOT FAMILY BUSINESS ORIGIN ENTREPRENEURS

	1	2	3	4	5	6	7	8	TOTAL SCORE		
									No	%	RANK
1. Outlet for personal abilities	2	5	2	2	-	-	-	-	73	12.8	3
2. Independence	6	7	3	-	-	-	-	-	115	20	2
3. Status	-	2	5	1	-	-	-	-	49	8.6	5
4. Job Satisfaction	2	2	1	2	1	-	-	-	50	8.8	4
5. Economic Rewards	13	1	4	3	2	-	-	-	158	28	1
6. Meet Family Demands	-	-	-	2	-	1	-	-	13	2.3	9
7. Expansion of Diversification of F.B.	-	1	-	2	-	-	-	-	17	3	8
8. Market Niche	-	3	1	-	1	1	-	-	34	6	6
9. Create Family Enterprise	-	-	1	3	2	-	1	-	29	5	7
10. Level of Achievement is High	-	-	1	-	-	-	-	-	6	1	12
11. Successful Endeavours	-	-	-	1	-	-	-	-	5	0.8	13
12. New Industry	-	1	-	-	-	-	-	-	7	1.2	11
13. Availability of R. Mats	-	-	2	-	-	-	-	-	12	2.1	10
TOTAL	23	22	20	16	6	2	1	-	568	100	
FAMILY DIMENSION (6+7+0)									59	10.4	
Outlet of personal abilities + independence & Job Satisfaction + Status									287	50.5	

9.2 ENTREPRENEURAL PROFILE

Many studies suggest that there is a significant association between personal traits such as age, education and work experience and the capacity to become an entrepreneur (Ahmed, 1977). In this part of the study, an attempt is made to give insight and provide a clue for the understanding of the Sudanese entrepreneur as an individual, as a platform for public policy aiming to develop entrepreneurial activities. Broehl, Jr. (1983) rightly articulated that:

> "A better understanding of entrepreneurship in the less developed countries could have a particularly high return for mankind".

9.2.a AGE

TABLE 9.3

AGE DISTRIBUTION OF SMALL FIRM ENTREPRENEURS AT FORMATION STAGE AND AT PRESENT

	AT FORMATION		AT PRESENT	
Range of Age:	No	%	No	%
1. Under 30 years	4	10	-	-
2. 30 - 40	20	50	11	27.5
3. 41 - 49	17	42.5	18	45
4. 50 - 59	-	-	11	27.5
5. 60 and over*	-	-	-	-

(x) some founders of growing firms died, second generation reported the data.

Table 9.3 shows the percentage of entrepreneurs falling in different age groups at formation of business and at the present. It can be observed that more than 90% of the sample entrepreneurs formed their business between 30 and 49. The proportion in the years 30-40 years age group is higher than that in the group 41-49 years of age. The survey provides inevitable evidence that the Sudanese individual's entrepreneural debut to be concentrated in their thirties. This finding is consistent with an observation made by Watanabee (Japan) (1970). John Deeks (1972) in U.S. and Gorman (1973) in Irish industry.

Regarding the age distribution of the sample entrepreneurs at present (field work time), 45% of the sample are in the 41-49 years age group, and an equal distribution between 30-40 and 50-59 age group with 27.5%. This classification and grouping of the sample entrepreneurs according to age will help explain the profile of entrepreneurs in terms of educational level and stands as a platform for a public policy and initiatives to develop the supply of entrepreneurs in The Sudan.

9.2.b EDUCATION

Most studies on entrepreneurship in developing countries have found that the entrepreneur is one of the most highly educated members of his community (Papanek, 1971; Carroll, 1965 and B. Osaze, 1981). Moreover, there was a contention that education is of more importance for the large and more complex firm than the small firm and highly education entrepreneurs perform better than the less educated entrepreneurs. Cooper (1983) argued that the education and the prior experience of the founder are related to company success.

In their study on Kenyian entrepreneurship, Morris and Somerset (1971) articulated that a success-bound entrepreneur needs at least three major skills: practical imagination, administrative ability and enough general knowledge (B. Osaze, 1981). It is the intent of this part of the study to establish the educational profile of the Sudanese entrepreneurs in the small manufacturing industry and to what extent the established statement and contention held true in Sudan that the educational level of the entrepreneur is higher than that of the rest of the population.

TABLE 9.4

POPULATION BY LEVEL OF EDUCATION AND AGE GROUP

(Both Sexes)

	(000's) Number	%	% Base	10-19	20-29	30-39	40-49	50-59	60 and over
1. Total	13071	100	100	23.9	15.1	11.2	7.7	4.5	4.2
2. Illiterate	8039	61.5	100	10.2	12.5	12.1	9.3	5.6	5.4
3. Khalwa	549	4.2	100	8	14.3	21.9	21.9	14.9	15.6
4. Primary	3245	24.8	100	49	14.8	8.2	3.2	1.3	0.6
5. Intermediate	699	5.3	100	68.8	20.2	7.6	2.1	0.7	0.6
6. Secondary	444	3.4	100	35.4	50.1	10.4	2.7	0.9	0.5
7. University	77	0.59	100	9.7	51.6	25.2	8.4	2.4	2.7
8. Other	4	0.03	100	26.5	36.5	15.7	14.2	2.2	4.9
9. Not Stated	14	0.18	100	41.4	5.50	12.5	3.1	6.2	4.2

Source: Household Income and Expenditure Survey, 1978-80; Ministry of Finance and Economic Planning; Sudan

Table (9.4) based on 1973/74 population census shows that the rate of literacy in the Sudan as a text example of under-developed countries was very low accounting to 38.5%. As far as the entrepreneurial age group identified in this study (30-59), the Table shows that 70% of this age group is illiterate.

The last rows of the Table (9.5) shows the percentage distribution of the smaple entrepreneurs, according to their level of education, classified into below and over secondary school level. That table shows that 40% of small firms' entrepreneur sample had educational level in terms of Khalwa and primary school and 60% had a secondary and university degree. The Table shows that 33% of small firms entrepreneur sample had a university degree and 29% received secondary school certificate. This finding in conjunction with the results of Table (9.4), provides an inevitable empirical evidence that the level of education of an entrepreneur in the Sudan is higher than that of the general public.

Table (9.5) illustrates an interesting point that the level of education of those who started a business in the 80's (start-up) is higher than those who started a business in the 60's and early 70's, with 80% and 45% respectively. This observation could be explained at macro level, by an increase in the level of education, from a 15% literacy rate in 1966 to 38.5% in 1973/74 (UNISCO, 1985). Moreover, an observation can be stated that there is a continous flow of educated people from the Civil Services and public and private sectors to industry and informal sector as entrepreneurs. This symptom can be explained in macro economic factors, mainly inflation, unemployment, flow-back of immigrants and other contingent factors.

TABLE 9.5

EDUCATIONAL QUALIFICATION OF ENTREPRENEURIAL SAMPLE

	Current St.Up. S.F.		Grig Dealing S. F.		S.F.		Total S.F. Sample		Large	
	No	%	No	%	No	%	No	%	No	%
1. Dropped out of Khalwa or primary school	0	0	5	25	0	0	5	11	1	7
2. Finished Khalwa or primary school	4	20	6	30	3	60	13	29	5	33
3. Secondary Schools	8	40	4	20	0	0	12	27	2	13
4. Commercial Schools	0	0	1	5	0	0	1	2	1	7
5. University/Technical Coll	8	40	5	25	2	40	15	33	6	40
6. Business Admin. Studies	1	5	0	0	1	20	2	4	0	0
7. Post Grad Studies	0	0	0	0	1	20	1	2	0	0
8. None	0	0	0	0	0	0	0	0	0	0
	20	100	20	100	5	100	45	100	15	100
* below secondary school level	4	20	11	55	3	60	18	40	4	27
* secondary school level and over	16	80	9	45	2	40	27	60	11	73

Table (9.5) presents a cross classification between the entrepreneurs' level of education and size of firms. The results obtained from the Table suggest a positive association between the size of the firm and level of education. The Table shows that 73% of founders, entrepreneurs and shareholders of the large firm sample had a secondary and a university degree, compared to 60% of small firm sample.

In making a comparison between the level of education of entrepreneurs of small growing and declining firms, the survey shows that there was no positive correlation between growth, success and the educational level of entrepreneur. The limitation of this analogy and comparison is embodied in the fact that it is not based on pairing sampling in terms of numbers and identify (20 against 5) and does not take into consideration the variation in the nature of industry and other contingent variables. This remained unanswered question in this research effort, building a dichotomy between successful and unsuccessful small firms from the angle of entrepreneurial typology, profile and characteristics.

This topographical map of the educational profile of small firms entrepreneurs, furnishes a platform for a public policy action plan to promote and develop the entrepreneurs as individuals in the Sudan, and provides a ground for management development institutes to launch their programmes for entrepreneurial development. The limitation of this generalisation, and influence on the level of education as well as other variables is based on a small sample, as compared to total the number of entrepreneurs in the Sudan.

With respect to management training, 55% of entrepreneurs of the small firms sample reported that they had not attended any sort of management training programme or seminar.

TABLE 9.6

ENTREPRENEURS SAMPLE AND MANAGEMENT TRAINING

	1		2		3 = (1+2)	
	CURRENT ST-UP S.F.		CURRENT G.S.F.		TOTAL SAMPLE	
	NO	%	NO	%	NO	%
1. NONE	11	55	11	55	22	55
2. Busin. Admin course one year programme	1	5	0	0	1	2.5
3. Mgt Training programme - local	5	25	4	20	9	22.5
4. Mgt Training programme - abroad	-	-	3	15	3	7.5
5. Ent with mgt edu training	6	30	7	35	13	32.5
6. Son of founder ent with mgt. degree	2	10	1	5	3	7.5
7. mgr. with Busin. education	1	5	1	5	2	5

Table (9.6) shows that 32.5% of the entrepreneurs sample had management education and training. The survey shows that most of these entrepreneurs received management training before establishing their businesses, as employees in public and private large enterprises. This observation indicates non-hard surprising result that management training is associated with occupational origin and industrial experience. Those who received management training reported that the training is not relevant to the problems of their businesses. It is beyond the capacity of this study to assess the management training services provided in the Sudan, and to what extent match the needs of entrepreneurs of small firms rather to state a public policy issue; that is to what extent educational and management development institutes can be organised and structured so as to enhance the supply of entrepreneurs in the market and to improve their efficiency along the way to develop a small enterprise sector in the Sudan. (see Chapter 12 for more details).

9.2.c OCCUPATIONAL ORIGINS AND INDUSTRIAL EXPERIENCE

Occupational origins, mobility and industrial experience are important determinant factors of entrepreneurial profile and the way he runs the business. To what extent does this hold true for the Sudanese entrepreneurs in small manufacturing industry and from what occupational background do they come? And what is the industrial experience of the entrepreneurs sample and to what extent is influenced by family domination as a socio-economic phenomena? These questions and points are examined in depth in the following discussion.

TABLE 9.7

INDUSTRIAL EXPERIENCE OF ENTREPRENEURS SAMPLE BEFORE ESTABLISHING BUSINESS

	(1)		(2)		3 = 1+2	
	CURRENT ST.-UP S.F.		CURRENT G.S.F.		TOTAL	
	NO	%	NO	%	NO	%
1. Civil Service and Public Sector	5	25	2	10	7	20
2. Banking Industry	1	5	0	0	1	2.5
3. Family Business (Trade, Com, Manuf.)	14	70	15	75	29	72.5
4. Professional	2	10	2	10	4	10
5. Private Sector employees	3	15	2	10	5	12.5
6. Traders 1 (own business)	2	10	2	10	4	10

Table (9.7) shows the different occupations in which the entrepreneurs' samples were engaged preceding their establishment of their own small manufacturing firms. The Table shows that 72.5% of the entrepreneurs sample (small firm) had an industrial experience in working in a family business and ex-employees, professional and small traders make up the rest (27.5%). The Table shows an interesting point that despite the importance of agriculture in the Sudanese economy (80% of population in agriculture; Hassan, 1975), none of these entrepreneurs sample come from the farming father or farming family as farmers. This could be explained by the low level of education in the population engaged in agriculture and farming activities, which is most widely to be found in the rural areas.

The occupational origin, background and industrial experience has an implication on entrepreneurial managerial knowledge and the way the business is run (Hoad and Rosko, 1964). The activities of the entrepreneurs emerged from family business and operating under the family umbrella in the summer and rainy season, are affected by the family ability to provide needed capital for start-up and funds for further investment as well as executive personnel. This controversial issue on the positive and negative side of family involvement in business has been raised by many writers on underdeveloped and developed economy (Carroll, 1965, Harris, 1974; Leyder, 1983).

The survey shows that family enterprise in the Sudan is the rule, in the sense that a vast majority of small firms in the sample received and were financed at inception from entrepreneurs or their family. Table 9.8 shows that 60% of entrepreneurs of small firms' sample had a managerial experience as a chief executive or assistant manager in a family business before establishing their own enterprises. The concerned entrepreneurs were most likely to move to their businesses with the preceding managerial experience and managerial practice of a family business. In their research work on Michigan manufacturing firms - US -, Hood and Rosko, (1964), found that the prior experience in managerial or non-mangerial work has an influence on the way entrepreneurs run the business and seemed to correlate with greater success (A. Cooper, 1983).

The occupational origin and background combined with industrial and managerial experience has an implication on the management set-up of business. The survey shows that an entrepreneur and/or his relatives held the office of the chief executive and performed key management functions in most cases and the offices of chief executives have tended to remain throughout stages of development in the family of entrepreneurs or founders. This finding was observed in developed countries, Anthony, Japan, 1983; Beckhard - US, 1982; Bolton - UK, 1971; and in developing countries, Kilby, 1974; and Carroll, Philipinne, 1965. Allen and Parion (1982) rightly articulated that:

> "Controlling families may be willing to sacrifice some degree of corporate profitability in order to retain some degree of direct family control over the corporation".

TABLE 9.8

MANAGERIAL EXPERIENCE OF ENTREPRENEURS

SAMPLE BEFORE ESTABLISHING BUSINESS

	(1)		(2)		(3) = 1+2	
	ST. UP. S.F. (CURRENT)		C S.G.F.		TOTAL	
	NO	%	NO	%	NO	%
1. Chief executive in their Family Business	10	50	10	50	20	50
2. Chief executive in private sector	-	-	2	10	2	2
3. Chief executive in public sector	-	-	3	15	3	7.5
4. Asst. Mgr in their family Business	3	15	1	5	4	10
5. Asst. Mgr in private sector	-	-	1	5	1	2.5
6. Asst. Mgr in public sector	-	-	1	5	1	2.5
7. Finance Director in F. Bus	-	-	-	-	-	-
8. Finance Director in private sector	-	-	-	-	-	-
9. Finance Director in public sector	-	-	-	-	-	-
10. Production Director in Family Business	-	-	-	-	-	-
11. Production Director in Private Sector	-	-	-	-	-	-
12. Production Director in Public Sector	-	-	-	-	-	-
13. Inspector/middle mgt in private sector	2	10	2	10	4	10
14. Inspector/middle mgt in public sector	4	20	-	-	4	10
15. Entreneurship in Trading	4	20	5	25	9	22.5
16. Entreneurship in Manufacturing	-	-	4	20	4	10
17. Others	-	-	-	-	-	-
18. Managerial experience in Family business	13	65	11	55	24	60

9.3 ENTREPRENEURIAL MANAGEMENT PRACTICE AND ATTITUDE

The survey indicates that small firms were based round the technical knowledge and managerial ability of their owners and managers. The survey shows that 60% of the small firms' sample were registered as an individual ownership; 20% as a partnership and 20% as a limited liability companies under family domination in most cases.

TABLE 9.9

TYPE OF LEGAL ORGANISATION OF THE SMALL FIRMS SAMPLE

	STARTING SMALL FIRM	S.F.	SMALL G. FIRMS		TOTAL	
	NO	%	NO	%	NO	%
1. Individual Ownership	13	65	11	55	24	60
2. Partnership	4	20	4	20	8	20
3. Registered Company - 1925 Act	3	15	5	25	8	20
	20	100	20	100	40	100

In contrast, the survey shows that all large private enterprises samples were registered as limited liability companies under the 1925 Company Act.

In response to the question: was any technical advice or assistance received at the outset, the respondents reported that the technical advice and assistance received was based on an informal and personal basis and ground, and in most cases from friends in the concerned field of industry or relatives.

Table (9.10) shows that most of the small firms covered for this study was established round the technical ability of entrepreneurs and informal advice received from friends on personal grounds (72.5%). This result was a good indication of the personalised way of forming business and reflects the traditional way of establishing on industrial establishment in the Sudan. This practice, in turn, has an implication on the way business is handled, controlled and managed, built round the ability of an authoritarian entrepreneur. This observation and finding proposes an empirical justification for an action of public policy, look for fostering and developing small business sectors in the Sudan. Hood and Rosko (1964) articulated that:

> "That successful founders were somewhat more likely to have sought information and advice from professionals and consultants".

With respect to the experience of developed countries (U.S., U.K. Japan) and developing countries (India, Nigeria, Egypt), in relation to small business development, a public policy and comprehensive schemes have been launched by governments to provide technical and managerial advice to small

TABLE 9.10

TECHNICAL ADVICE OR ASSISTANCE RECEIVED

AT THE OUTSET, AND IF SO, FROM WHOM?

	1		2		3 = 1+2	
	CURRENT ST. UP S.F.		CURRENT S.G.F.		TOTAL	
	NO	%	NO	%	NO	%
A. RECEIVED TECHNICAL ADVICE	15	75	13	65	28	70
. From local specialist body	3	15	1	5	4	10
. From FORIEN specialist body	4	20	3	15	7	17.5
X Formal Advice	7	35	4	20	11	27.5
. On informal and personal basis	8	40	10	50	18	45
A. From friends in the field	9	45	9	45	18	45
B. From Banker	0	0	0	0	0	0
C. From Relatives	2	10	1	5	3	7.5
D. From Partner/s	1	5	1	5	2	5
E. Other (s)	1	5	-	-	1	2.5
DID NOT RECEIVE (FOR/INFOR) ADVICE	5	25	7	35	12	30
. Skill inherited by father (family)	0	0	1	5	1	2.5
. Entrepreneur expert in the field	0	0	1	5	1	2.5
. Simple and traditional industry	4	20	4	20	8	20
. Previous experience of entrepreneurs	5	25	3	15	8	20
. Son of the founder expert in the field	1	5	0	0	1	2.5

TABLE 9.11

MANAGEMENT SET-UP OF BUSINESS AND FAMILY RELATIONSHIP

"PRESENT DIRECTORS AND THEIR FAMILY RELATIONSHIPS"

	(1)		(2)		(3)	
	CURRENT ST.-UP. S.F.		CURRENT G.S.F.		SAMPLE	
	NO	%	NO	%	NO	%
1. Entrepreneur/s and ...	20	100	18	90	38	95
2. Brother/s	13	65	11	55	24	60
3. Son/s	7	35	8	40	15	37.5
4. Brothers/s + son/s and other F.M.	5	25	3	15	8	20
5. Non Family Members (outside management)	1	5	7	35	8	20
6. Bank Rep under Musharaka	1	5	0	0	1	2.5
7. Shareholder/s (non family)	0	0	1	5	1	2.5

scale industries at formation and throughout stages of development.

The historical background of the firm, ownership structure, and personalised ways of forming has an effect on the way a firm is organised, controlled, run and managed. The size of management in most of the survey firms was found relatively small built round the entrepreneurs and members of his family, and the power was centralised in the entrepreneur who was in charge of almost all activities of the business. This finding on small management practice was observed in the U.K. (Bolton, 1971), U.S.; K. Said and Hughey (1977); Philippine, (Carroll, 1965). Christensen, C.R. added that:

> "These men are "enterprisers" whose primary skill lies in "doing" rather than in "delegating". In small companies these managers can work with a smaller executive group and participate personally in the job of producing and selling . In this way the small business offers the "non organisational manager a chance to work and make a contribution".

Table (9.11) shows the domination of owner-managers and the degree of family involvement in the management of small firm. The Table illustrates the non-existence of professional management and outsiders at start-up stages of development and their in-significant existence at growing stage. The Table shows that 80% of the small firms sample were managed and controlled wholly by entrepreneur and his family members. This observation can be explained by the ownership and personality of an entrepreneur, who has an often authoritarian personality and is adverse to sharing responsibilities.

This conclusion is somewhat similar to the conculsions of Pondy (1969), Allen and Ponien (1982) and Geeraerts (1984) and the effect of ownership on administrative intensity and management of the firm. Pondy (1969) added that:

> "Owner-managers are unwilling to dilute their personal power and control over the organisation by adding professional, non family personnel".

The non-existence of professional management in most of the small firms sample is aggravated by the fact that very few owner-managers (32.5%) have any training in management. With respect to the small growing firms sample, the research finding challenged the contention and statement made by scholars (Peiser and Wooten, 1969; Levington, 1971), that growth is often accompanied by professional management. Atabani (1980) offered an explanation, arguing that the introduction of family members, usually at higher echolons in the hierarchy was acting as a frustrating and alienating factor as far as other personnel and their careers were concerned.

Table (9.12) shows that the Sudanese entrepreneurs tended to keep all decisions on sales (87.5%), finance (92.5%) and overall planning (92.5%) under their sole responsibilities and in some cases with the assistance of their son/s and/or brother/s, regardless of the stage of enterprise development. This observation might give a clue and insight into understanding of the personality and typology of an entrepreneur as a money seeker, with financial gain as a prominent objective. The centralisation of decision-making on financing and any transaction with direct monetary connotation in the hands of an entrepreneur, provides an empirical examination of the research analytical framework and gives inevitable evidence that small firms financing is influenced among a number of variables by typology, profile and attitude of an entreneur.

The centralisation of power and decision-making on financial issues on entrepreneur, questioned the management knowledge of an entrepreneur, entrepreneurial competence in handling financial management issues of business at critical stage of development - survival - and at expansion and development stage, as well as the entrepreneurial ability to present a good case to financiers. Bolton (1971) observed the inability of small firms owner-managers in presenting a case for raising institutional finance. (see Chapter 7).

The entrepreneur's sole responsibility for overall planning of the business, was an indication of fate, growth, development and prospect of the business is contrained by entrepreneurial ability, perception and vision. "In search of excellence", Peters and Waterman, (1982) articulated that, entrepreneur vision is a critical factor on efficiency and effectiveness of management as well as the fate and prospect of the business. "Mechenz Model".

Table (9.12) shows an interesting point and hardly surprising result that entrepreneurs of small growing firms, as compared to small firms at start-up stage, were more willing to delegate to outside subordinates the production and personnel functions. This finding explains the effect of the life-cycle of the firm on management practices. This observation gives and suggests a proposal for a comprehensive research effort to examine the entrepreneurial behaviour and attitude towards different managerial functions.

TABLE 9.12
RESPONSIBILITIES OF FUNCTIONAL ACTIVITIES IN SMALL FIRM SAMPLE:

	START-UP SMALL FIRM		SMALL GR. FIRMS		TOTAL FIRMS	
1. SALES	NO	%	NO	%	NO	%
A. Sole Entrepreneur responsibility	9	45	12	60	21	52.5
B. Entrepreneur/s + Brother/s + Son/s	10	50	4	20	14	35
C. Brother/s + Son/s and other Family Members	0	0	1	5	1	2.5
D. Entrepreneur + non family member/s	1	5	4	20	5	12.5
2. FINANCE						
A. Sole Entrepreneur responsibility	14	70	17	85	31	77.5
B. Entrepreneur/s + Brother/s + Son/s	5	25	1	5	6	15
C. Brother/s + Son/s and other Family Members	0	0	1	5	1	2.5
D. Entrepreneur + non family member/s	1	5	3	15	4	10
3. PRODUCTION						
A. Sole Entrepreneur responsibility	4	20	9	45	13	32.5
B. Entrepreneur/s + Brother/s + Son/s	15	75	8	40	23	57.5
C. Brother/s + Son/s and other Family Members	0	0	4	20	4	10
D. Entrepreneur + non family member/s	1	5	10	50	11	27.5
4. PERSONNEL						
A. Sole Entrepreneur responsibility	4	20	8	40	12	30
B. Entrepreneur/s + Brother/s + Son/s	14	70	6	30	20	50
C. Brother/s + Son/s and other Family Members	0	0	6	30	6	15
D. Entrepreneur + non family member/s	2	10	10	50	12	30
5. OVERALL PLANNING						
A. Sole Entrepreneur responsibility	12	60	17	85	29	72.5
B. Entrepreneur/s + Brother/s + Son/s	7	35	1	5	8	20
C. Brother/s + Sons/ and other Family Members	0	0	1	5	1	2.5
D. Entrepreneur + Non Family Members	1	5	3	15	4	10

To establish the management style of the Sudanese entrepreneurs in the small manufacturing industry, respondents were asked about their approach in making decisions and what did they consult in making major decisions. The survey shows that the decision style of entrepreneur as measured and operationalised by Sales (1977 (see Research Methodology Chapter) is authoritative at a lower level and consultative at upper level, which in most cases was dominated by family members. Thus, the entrepreneurial style of management is influenced by the degree of family involvement in the business. This observation does not rule out the established contention in the literature of the small firm that the authorative and paternalistic style of management is predominent in the small firm, (Ray and Hutchinson, 1983), in the sense that a high degree of power is wielded by the owner-manager over the sub-ordinates.

The centralisation of power in the entrepreneur and members of his family, explains the personality of an entrepreneur and his desire to be independent and to keep family domination on the business. This is reflected in his characteristics of reluctance to use outside professional staff.

To find out what the entrepreneur does about delegation of authority, the respondents were asked, who takes charge of the business in the absence of the entrepreneur. The survey results reflect the family domination and its association with an implicit and explicit management succession plan, in the sense that delegation is made in most cases to a family member according to entrepreneurial family hierarchy, regardless of age and experience. Broadly, we can state that the delegation in a small business is not formalised, it is made on ad hoc basis with an entrepreneur keeps in most cases the finance responsibility in presence and absence. This is a good indication of the Sudanese entrepreneur attitude to sharing of power. In this regard, the researcher observed that there is some sort of fighting between old-style entrepreneur "who puts his nose into everything and acts as an ultimate decision-maker" and the new generation in the process of generation cycle as a management successor.

The foregoing discussion suggests that the Sudanese entrepreneurs in the small manufacturing industry managed and controlled their businesses in a personalised way (Bolton, 1971), as authoritarians, confined the sharing of power to family members, with characteristics of reluctance to use or trust outside personnel. (Carroll, 1965; Boswell, 1971; Bolton, 1971). The style of management is a 'craftsmen' one (Cooper and Dunkelberg, 1984), with a significant degree of informality; and centrally controlled by the entrepreneur and members of his family. This observation provides inevitable evidence of the interaction between entrepreneur and financing and financial control, identified in this study as a main facet of small enterprise development in the Sudan. (See Chapter Three on Research Analytical Framework). The management succession plan is implicitly and explicitly associated with the hierarchy of the entrepreneur family. A number of things, notably Islamic principles and the Sharia Code (religion) has an influence on the determination of management succession. A Further research into the question of management succession in the small firm in the Sudan, will advance our understanding of entrepreneurial process and what critical variable/s are to be considered in adopting a policy for the development of the entrepreneurial supply and improvement of efficiency and effectiveness of entrepreneurial activities.

9.4 CONCLUSIONS

The empirical findings of this investigation have been stated at various points throughout the preceding parts. It may now be possible to combine and summarise the main conclusions of the study and their theoretical and policy implications. First, we turn to the main conclusions of the study.

The economic rewards and the financial gain have been cited by vast majority of entrepreneurs samples as a main motive for forming their businesses. Based on the classification of entrepreneurs samples according to occupational origin and background, the development and diversification of family business and meet of family demand has been ranked by entrepreneur working under a family umbrella as a second motivating factor. In contrast the other group cited desire for independence, job satisfaction and outlet for personal abilities as a second motive. The financial gain as a main motivating force at formation and as a current motivating factor is cited by entrepreneurs as a symbol of achievement of other goals: independence, family image and status, power, standard of living and prestige.

Most entrepreneurs in small manufacturing industry made their debut in the industry in their thirties and early forties (30-49). The survey shows that entrepreneurs in small manufacturing was more literate and educated than their age group and the general public.

Small firms were built around technical and managerial ability of an entrepreneur. This posed the occupational origin and industrial experience and their effect on performance of entrepreneur. The small firm was managed in a personalised way by the authoritarian entrepreneur with characteristics of reluctance to use and consult outside professional management and a negative attitude towards sharing of power.

The centralisation of power and decision making in an entrepreneur's hands and notably financing issues, is a good indication and reflection of the influence of entrepreneurial understanding, knowledge and attitude in the way the company is financed, managed and the company's fate and prospects.

The main research findings stated above have theoretical and policy implications. On the theoretical level the survey provides a positive support to Timmons (1978) and other writers, that the financial gain is the most prominent motivating factor for going into business and continuing within the process of a money-making cycle. The survey provides inevitable evidence that entrepreneurial motivation for going into business cannot be explained only from economic or non-economic forces; motivation is based on interaction of economic, social and psychological motives. In this study entrepreneurial motivation has been tackled from the perspective of an entrepreneur as an individual, which implies that more research efforts are needed to explain and investigate the entrepreneurial motivation on an longitudinal basis and on a large sample, along the way to provide insight into understanding of elusive heftalump.

The survey provides and gives support to the established contention in the entrepreneurial literature that entrepreneurs are more educated than the general public. It also shows that there is a positive correlation between the size of the firm (small and large) and the educational level of an entrepreneur.

An analysis of the Sudanese entrepreneur in a small manufacturing industry as an individual gives and provides an empirical support to small enterprise development models (Patel, 1977; Neck, 1977; Bolton, 1971; Ray and Hutchinson, 1983), that entrepreneurship has an influence on the way the company is financed, organised and its prospect (Mechenz Model), which in turn provides an empirical examination of the research analytical framework.

With respect to implication for policy, a vital question and pertinent focal point need to be raised at the outset; what are the circumstances over which the policy maker has some control and which are likely to contribute to the development of entrepreneurship along the way to develop and foster the small business sector in the Sudan. A strategy for the development of entrepreneur would seem to involve the following points:-

First, at macro level the concerned strategy is to start with the establishment of an integrated public policy towards the development of an entrepreneur, commencing with the conceptualisation of the term leading to public policy and a well-detailed action plan and institutionalisation under Government sponsorship.

Second, initiation of policy and programmes to enhance the supply of the entrepreneur in the market as an agent of change and to improve the efficiency and effectiveness of entrepreneurial activities. The enchancement and promotion of entrepreneuial supply can be assigned to universities and other academic institutions in order to stimulate and encourage potential entrepreneurs (Harvard and Babson College approach; U.S,). Based on the contention and allegation that educated people operate better as entrepreneurs, McClleland's approach in stimulation and promotion of entrepreneurial supply can be adopted and used in the Sudan. The subject apporach can be built round a comprehensive entrepreneurial scheme focussing on educated, unemployed and/or disguised employees. This approach has social, economic and political values and merit in the Sudan nowadays, as a result of unemployment of university graduates in certain specialisations and the flow-back of immigrants from Arab petroleum countries following the recession and falling of petrol prices. At macro-level this programme can guarantee the promotion and development of productive sectors and curtailment of parasite economic activities.

The combination of management training, management knowledge and education is positively correlated with greater success. Thus, in order to improve the efficiency and effectiveness of entrepreneural activities, specialised management training programmes according to the needs of small entrepreneurs have to be launched, taking into consideration the relevancy of contents, instruction style and timing. To attain this point of strategy, more effort is needed to identify first the entrepreneur, entrepreneurial management training needs and the proper way to approach the entrepreneurs. This requires the institutionalisation of a specialist body as a part of the existing management development institutions; mainly the Management Development Centre (M.D.C.) with objectives of providing management training services and managerial advice to small entrepreneurs. This requires qualified and specialised staff and instructors as well as specialists in the field of small business.

The Sudan as a text-book example of underdeveloped countries, looks to industrialisation as one of the most important keys to the realisation of its economic independence and ambitions. To attain this objective an action plan and programme is needed to be launched to provide technical advice to entrepreneurs at formation and throughout stages of their development. The suggested programmes will stand as a national strategy for technology and development based on the country's needs, along the way to abolish the traditional and personalised way of forming an industrial establishment in the country. The Ministry of Industry and its affiliated bodies and institutes, mainly the Industrial Research and Consultancy Institute (I.R.C.I.) can be strengthened in terms of legislation, financial resources and staff to shoulder this responsiblity. The concerned proposal will furnish a platform for planned industrial development in a country of meagre financial resources, facing economic crisis, and categorised as one of the least twenty five developed countries in the world, with a very low per-capita income.

CHAPTER TEN

FINANCIAL CONTROL CHARACTERISTICS AND PRACTICE OF SMALL FIRMS IN THE SUDAN

Accounting is conceived and practiced as an information measurement system dealing with the generation, verification and reporting of relevant data for micro and macro economic activities and resources (Enthoven, 1979). An American Accounting Committee (1966) defined accounting as: "The process of identifying, measuring and communicating economic information to permit informed judgements and decisions by uses of the information". Enthoven, (1977) articulated that:-

> "Accounting also has its impact on capital formation and the capital market mechanism ... Thus, a good accounting and auditing help in generating sufficient investor confidence to stimulate the flow of capital and to measure the efficient use of capital".

With respect to accounting practice in developing economies, a number of scholars and writers including, Whittle (1980); Perera (1975); and Qureshi (1974), concluded that accounting practice was very poor, and the level of financial accounting practiced has taken the form of mere technical recording rather than being an adjunct to planning and control functions. Parker (1984) rightly added that: "Deficiencies in developing country financial accounting and reporting practices are varied ... The potential use of management accounting information for analysis and decision-making in both the macro and micro sectors of developing country economies has often been neglected".

Regarding small firms, it was established that the financial control systems operated by small firms in developed and developing economies tend to be poor and inadequate (see Chapter Two). Review of literature suggests that there is no significant difference between developed and developing economies, regarding the small firm financial control practice. Ray and Hutchinson (1975) and Osaze (1981) found that growth has an influence on the financial control practice of small firms. The main objective of this part of the study is to examine to what extent these findings hold true for small firms in the Sudan, and to what extent the financial control systems maintained by small firms is responsible for the identified finance gap.

To establish the Sudanese experience, its theoretical, and relevant policy implications on small enterprise development, the chapter is organised as follows: Part I, provides insight into the entrepreneurial attitude towards financial control practiced by small firms. Analysis of the financial information produced by small firms at inception and growing stage of development as well as control of the key variables is presented thoroughly in Part II. Part III and IV, give an outline and insight into budgeting and strategic planning practice of small firms in the Sudan. The concluding section summarises the main investigation findings and theoretical and policy implications that emerge from this study.

10.1 ENTREPRENEURIAL ATTITUDE TOWARDS ACCOUNTING

An attitude is an orientation toward certain objects or situations (Corne, 1975). In measuring the entrepreneurial attitude towards accounting and accountant role, a surrogate measure approach (McKinlay, 1979; Said and Hughey, 1977; and Larson and Clute, 1979) and Sathe (1982) approach based on opinion, have been used in this study (see Chapter Four).

On development of the accounting profession in industralised developed countries, Fregman (1976) argues that: "An empirical reason for this advancement of the accounting profession is the fact that managers have come to appreciate the importance of accounting data and analyses in the effective administration of an enterprise". Sathe (1982) lends support to Fregman adding that management expectations regarding the controllers and accountant role can also influence the controller and accountant involvement in the management of the business.

The empirical evidence from this study provides positive support to the body of knowledge findings that an entrepreneur has a poor understanding of the significance of accounting and does not understand accounting language. With respect to the status of book-keepers and/or accountants in the small business, the survey shows that 50% of book-keepers maintained by small firms at inception were either recruited on a part-time basis or a combination of full and part-time book-keepers. Table (10.1) presents an interesting result in that 75% of small firms at Inception tended to retain book-keepers as family members, relatives or entrepreneur's friend with little or no formal education and training in accounting (80%). The incompetent and untrained book-keepers employed by small businesses holding themselves out as qualified and trained accountants, from the standpoint of family belonging or as friends to entrepreneur. The low level of education and knowledge of accounting of book-keepers employed by small businesses at Inception can be reflected in the fact that 75% assigned the responsibility of annual final accounts - if any, and balance sheet preparation to external auditors or part-time accountants on personal grounds and friendship basis.

The small growing firms sample shows a slightly different profile for accountant status, as compared to small firms at Inception, in the sense that 30% of the sample tended to retain a full-time chief accountant with accounting and industrial experience. Table (10.1) shows that 75% of the small growing firm retained book-keepers on a full-time basis, with a very low percentage of family members and friends (25%). The accounting knowledge and experience of book-keepers employed by small growing firms is higher than that maintained by book-keepers retained by small firms at inception. This can be measured by responsibility of final accounts preparation in-house of the enterprise, with 45% and 25% respectively.

This slight variation between the small firm at inception and small growing firms, regarding status of accountants and book-keepers can be attributed to the experience of the owner of the small growing firm and expansion and growth influence on the management practice of the small firm.

As far as qualification and accounting knowledge and training of book-keepers retained by the small business, regardless of stage of development, Table (10.1) shows that 80% of book-keepers had no accounting education, nor any sort of training on accounting. Nearly 70% of the small firm experienced accounting problems, because the owners had neither the time nor trained accountants to provide expertise in this deficient area of small business management.

The non-existence of qualified accountants in small businesses can be attributed to a number of factors: First, unawareness of the entrepreneur to the significance of accounting and record-keeping system in managerial - decision-making process and in obtaining institutional credit. Second, the inability of the small firm, particularly at the inception stage to afford in-house accounting division and recruitment of qualified accountants which lead to the hiring of unqualified and incompetent bookkeeping services. The third factor is embodied in the fact that most of small firms were built around family ownership and management, with an entrepreneurial reluctance to approach, trust and recruit an outside professional staff (see Chapter Nine). One of the small business owners said that:

> "We have the belief and conviction that every industry has its own secrecy, and particularly in accounting and financed records, and that is why we appoint family members as accountants".

The Table (10.1) denotes that, under Musharaka financing, the bank is involved in the maintenance of accounting records and recruitment and selection of book-keepers as well as external auditors. Thus the bank involvement in the management has an influence on the status of accountants in terms of qualification, terms of recruitment and the role in the management of the business. The Table shows that in some cases, the responsibility of final accounts were assigned to bank representative attached to the financed firm. This observation provides an empirical confirmation of Enthoven (1979) contention that banks can play an active role in up-grading accounting practice in third world countries.

TABLE 10.1
POSITION AND STATUS OF ACCOUNTANTS AND BOOKKEEPERS IN SMALL BUSINESSES

	ST UP S.F.		SMALL GR.F.		TOTAL SAMPLE	
	NO F	%	NO F	%	NO F	%
1. Chief Accountant - Full time	3	15	12	60	15	31.5
2. Chief Accountant - Part time	0	0	1	5	1	2.5
3. Bookkeepers - Full time	10	50	15	75	25	62.5
4. Bookkeepers - Part time	2	10	1	5	3	7.5
5. Bookkeepers - Full & Part time	6	30	3	15	9	22.5
6. Chief Accountant/:	2	10	1	5	3	7.5
. Family Member	1	5	2	10	3	7.5
. Non Family Members	2	10	6	30	8	20
. Friend/s	0	0	4	20	4	10
. Bank Representatives	0	0	0	0	0	0
. Owner/s	0	0	1	5	1	2.5
7. Accountant/s Bookkeepers						
. Family Members	8	40	4	20	12	30
. Non Family Members	4	20	14	70	18	45
. Friend/s	7	35	1	5	8	20
. Bank Representatives	4	20	0	0	4	10
8. Qualifications:						
Chief Accountants:						
. University	2	10	4	20	6	15
. Professional	0	0	0	0	0	0
. Commercial secondary	1	5	1	5	2	5
. Academic secondary	0	0	7	35	7	17.5
. Intermediate	0	0	1	5	1	2.5
9. Qualifications: Accountants						
. University	4	20	4	20	8	20
. Professional	0	0	0	0	0	0
. Commercial secondary school	1	5	1	5	2	5
. Academic secondary schools	16	80	16	80	32	80
. Intermediate	2	10	0	0	2	5
Responsibility for the preparation of profit and loss A/C and B/sheet						
. Chief Accountant - F. time	2	10	6	30	8	20
. Accountant - Full time	5	25	1	5	6	15
. Accountant - Part time	6	30	3	15	9	22.5
. External Auditor	6	30	5	25	11	27.5
. Bank Representative	5	25	2	10	7	17.5
. Entrepreneur/s	1	5	1	5	2	5
. Friend/s	0	0	1	5	1	2.5
. General Manager	0	0	1	5	1	2.5

CONTINUED.

who advised on the maintenance of accounting records						
. External Auditor	7	35	14	70	21	52.5
. Self	6	30	6	30	12	30
. Bank	6	30	3	15	9	22.5
. Private Consultants	0	0	0	0	0	0
. Friend/s	7	35	2	10	9	22.5
. Family member/s	2	10	0	0	2	5
. Partner/s	0	0	0	0	0	0
who advised on appointments of Accountants						
. External Auditor	5	25	9	45	14	35
. Self	15	75	2	10	17	42.5
. Bank	4	20	14	70	18	45
. Private Consultants	0	0	0	0	0	0
. Friend/s	6	30	0	0	6	15
. Family member/s	1	5	0	0	1	2.5
. Partner/s	0	0	1	5	1	2.5

The survey points out that more than 50% of small firms maintained their accounting records, and recruited and retained accounting personnel either as self-responsibility or on an informal basis though advice provided by friends or relatives. The survey shows that the entrepreneur resists advice from qualified sources, but accepts it readily from those least qualified, in the sense that none of the entrepreneurs had consulted a private consultant on appointments or maintenance of accounting systems, other than an external auditor as a part of accounts approval, or as a legal action and prequision. This situation is aggravated by the fact that most of the entrepreneurs (90%) are entirely un-trained in accounting and do not understand the role of accounting in managing an enterprise.

In response to the question on the opinion of the entrepreneur on the role of accounting and accountants in the decision-making process and help in raising finance (Sathe approach), most of the entrepreneurs (90%) reported that accountants have no role in decision-making and in managing and operating the business. Very few, (30%), pointed out that the role of accountant in raising finance is confined to preparation of documentation. An accountant of one of the small firm, commented that:

> "It is a general practice in the Sudan, that the owner is taking the whole responsibility in raising finance and controlling cash resources. In small firms, management is not capable to identify and specify the accounting information needed, and this is mainly attributed to the fact that many of them have not had a minimum knowledge of accounting".

This observation is consistent with Perera (1975) finding in investigating the accounting practice in private enterprises in Sri Lanka. He stated that: "The control of private enterprise by a small elite group of owners - managers has allowed them to believe that they need only a minimum of accounting information".

The research findings on entrepreneur attitude towards accountants and the accounting role, explained the phenomenon why small businessmen attempt to run a firm without adequate and complete accounting system. Bates and Hally (1982) asserted that:

> "Many owners of small businesses are horrified by accounts of any sort, because they rarely seem to tell them very much, and hardly ever seem to have much relevance to current operations. The terminology of the accountant is precise and meaningful to profession, but it is frequently obscure and misleading to the layman, and many owners of small businesses are simply overawed".

the empirical investigation provides evidence that accounting problems experienced by small businesses could be attributed to the fact that an entrepreneur has a poor understanding of the significance of accounting. Given this attitude, the vital question to be raised, what is the financial control profile of the small firm. To this point that we direct attention now.

10.2 FINANCIAL CONTROL CHARACTERISTICS OF SMALL FIRMS

10.2.1 CLASSIFICATION OF FINANCIAL CONTROL SYSTEMS

The primary problem of classifying and stating the financial control characteristics and profile is that there are no generally accepted or readily available means of describing and classifying financial control systems (Hutchinson, Piper and Ray, 1975). To establish the state of the art of the financial control systems of small firms at inception and growing stage of development, the description adopted was based upon the frequency and type of information produced within the company. The weakness of this approach of analysis is based on the assumption that the information produced is used by an entrepreneur for a decision-making process or for the presentation of financial documentation to lenders and financiers. (see Chapter Four).

To build a dichotomy and a basis of comparison between small firms at inception and small growing firms, a scaling model has been developed as a surrogate for classification of information produced by the two groups.

Construction of the Scale

The established scaling model is an ordinal one, in the sense that numbers are assigned to the various instances of the property, so that the order of the numbers corresponds to the order of magnitude of the objectives and instances. The data collected were based on opinions and descriptions of the financial control system of the sample firms, provide the basis of the model, and facilitates the measurement and build up this classification and dichotomy. This measure is based on a range of a continuum using a scale of

'0' for non-documentary and non-reporting of accounting information, to '5' for sophisticated or formal and very frequent historical and forecasted financial information and reporting of the key financial variables. [Ray, 1979]. The subject model has been developed in this study as a surrogate for the lack of quantification in this area (see Research Methodology Chapter - Chapter Four).

The weakness of the scaling model is based on frequency and type of information produced. The scaling model is built and structured round a numbering of objects and stimuli, which does not explain the distance and variation within the rank. Ray (1979) pointed out that:

"Care is needed in the interpretation of these classification, since it should be borne in mind that sophistication is a description of frequency and type of information, not an evaluation of the efficiency or effectiveness of the system".

Based on the scaling model (10.2), the survey shows that most small firms at inception, (95%) started, with a rudimentary and non-documented accounting information. This observation provides positive support to Lievegaed (1973) and Ray and Hutchinson (1979) on what they called a pioneer enterprise. Table (10.3) shows that 95% of current small firms at inception tended to maintain informal and ad hoc reporting of a key financial variables, identified in this study as sales, cash, wages, debtors, creditors, stocks and materials. The survey shows that the small growing on the whole (average basis) tended to have better accounting systems in terms of degree of formality and frequency of information produced within the company. Table (10.4) and figure (10.1) show that 65% of the small growing

TABLE 10.2
RANKING OF SCALING MODEL

RANK	OBJECTS AND STIMULI
0	Non documented and non-reporting of accounting information. Control systems would be completely inadequate, rudimentary and based on adhoc and informal reporting
1	Adhoc and informal reporting of key financial variables and annual reporting of financial statements of historical nature
2	Informal and formal reporting of key financial variables with annual and half yearly reporting of historical financial statements, with informal reporting of forecast financial information
3	Most frequent reporting of financial variables with half-yearly reporting of financial statements and formal and informal reporting of forecast financial information
4	Most frequent formal reporting of key financial variables, with a quarterly reporting of historical and financial information
5	Most frequent reporting of key financial variables on formal basis, and monthly and weekly reporting of financial information, planning practice, budgeting and responsibility centre concept.

firm can be accommodated within score (2) according to the classification of the scaling model and 35% of the sample shares the characteristics of small firms at inception.

On an aggregate basis, the survey shows that 65% of the small firm sample, tended to keep informal and adhoc reporting of key financial variables, and the accounting system is confined merely to recording of actual transactions with a historical profit and loss account and balance sheet as an end product for taxation and raising of finance purposes. Perera, (1975); Ogon, (1978), and Tuchau, (1978) concluded that financial accounting practice in developing countries has often been seemed to be concerned primarily with manipulating accounting records and reports, for the purpose of taxation evasion (Parker, 1984).

Trade (10.4) in conjunction with the pattern of financing and financial facilities available to small growing firms (Chapter 5; Table 5), provides an empirical evidence that financing is associated and interacted with financial control, in the sense that small growing firms with relatively adequate financial control systems, were successful in obtaining institutional finance. The degree of adequacy does not represent the whole story of raising finance, rather it explained the interaction between financing and financial control (see Chapter Seven and Eight).

The survey shows an interesting point in that there is a positive correlation between the level of education of an entrepreneur with management and accounting knowledge and the degree of adequacy of the financial control systems. The survey shows that 35% of the small growing firm with a relatively adequate system, as compared to the rest of the population, were managed by an educated entrepreneur with some sort of management knowledge and enlightment. Bamberger (1983) observed that: "Small and medium-sized firms are usually family-owned firms. The principal owner is often identified with the top manager. His personality, values, convictions, education and experiences overwhelmingly influence the information and policy decisions".

Based on the ranking of the scaling model, the survey provides positive support to the research hypothesis that the degree of adequacy and inadequacy of the financial control systems of small firms varies from one stage of development to another.

FIGURE 10.1

RANKING OF THE FINANCIAL CONTROL

SYSTEMS OF THE SMALL FIRM

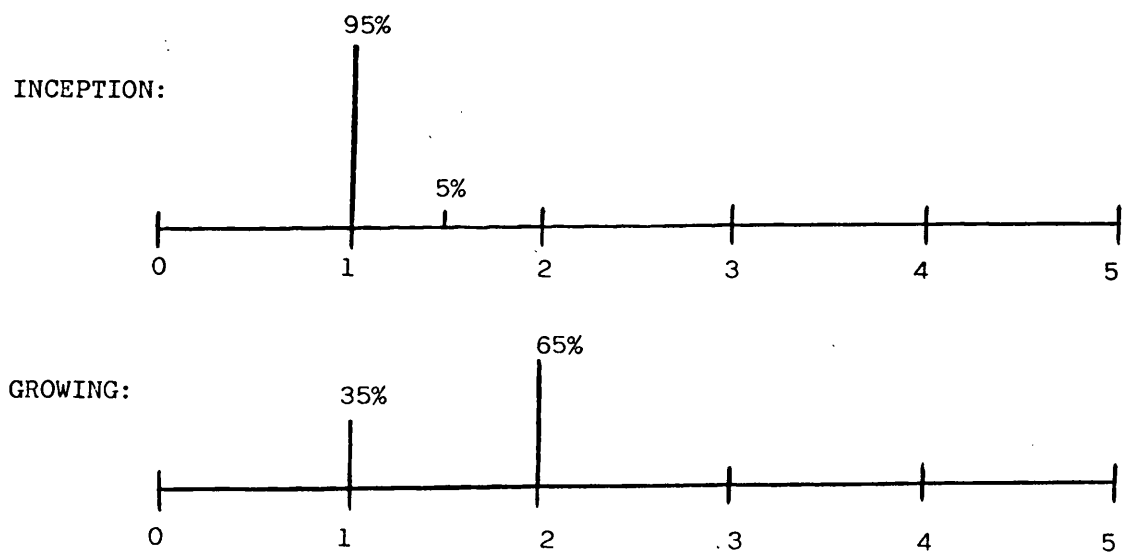


TABLE 10.3

RANKING OF SMALL FIRMS AT INCEPTION SAMPLE

SMALL F. NO.	SOPHISTICATION MODEL					
	0	1	2	3	4	5
1		x				
2		x				
3		x				
4		x				
5		x				
6		x				
7		x				
8		x				
9		x				
10		x				
11		x				
12		x				
13		x				
14		x				
15		x				
16		x				
17		x				
18		x				
19		x				
20			x			
	0	95%	5%	0	0	0

TABLE 10.4

RANKING OF SMALL GROWING FIRMS SAMPLE:

NO.	SOPHISTICATION MODEL					
	0	1	2	3	4	5
1		x				
2		x				
3			x			
4			x			
5			x			
6			x			
7			x			
8		x				
9		x				
10			x			
11		x				
12			x			
13			x			
14		x				
15			x			
16			x			
17		x				
18			x			
19			x			
20			x			
	0	35%	65%	0	0	0

10.2.2 TYPE AND FREQUENCY OF INFORMATION PRODUCED

Having classified the financial information produced by the small firm and built a dichotomy between small firms at inception and small growing firms, this part of the chapter will explain in more detail the ranking adopted according to the scaling model, in attempt to establish the financial control characteristics of the small firm.

Table (10.5) shows that all small firms prepared annual accounts. The Table shows hardly surprising result, that growth did not change or increase the frequency of the historical financial statements. This observation can be explained by the fact that a financier requires historical data. (see Table 8.17; Chapter Eight). The Table indicates that the majority of the small firm (98%) did not produce a projected profit and loss account and balance sheet. It was noticed that entrepreneurs of small firms had no idea of the importance and significance of forecasted financial information and often reported that they had not heard of it.

The picture and symptom of poorness and inadequacy of the financial control practice of the small firm can be drawn as influence based on absence and non-existence of historical and forecasted cash flow and non-existent of use and sources of funds statement. Said and Hughey (1977) argued that: "cash management is another essential ingredient of business success. Both planning for adequate cash levels and for sources from which funds can be obtained cheaply and conveniently can be facilitated if the owner-manager knows about alternative sources of financing and appropriate ways to manage cash flow and outlaw". The survey provides an empirical confirmation of Larson and Clute (1979) observation that the entrepreneur's understanding of cash-flow is that, if the firm earns a high profit, the cash flow will be adequate. This misconception stands as an indication of lack of accounting knowledge in the small firm under the direction of the owner as a dominant coalition. The first step to solve this problem of misconception is to make an entrepreneur aware of these accounting terms and techniques. This is a mission of educational and management development institutes.

The review of waking capital is built round the review of raw-material which needs to be financed from private sources or instituionally. Table 10.5 shows that 42.5% of small firms received their raw-material needs at finance application. Under 'Murabaha' finance, which is the most common financing instrument used by banks in providing funds to clients (see Chapters Five and Eight), financing is highly associated with goods, which are raw-materials, in case of industry. The Table shows that 55% of small growing firms, which depend largely on external finance; review their working capital needs for Murabaha finance as a documentation at the negotiation table. This in turn, reflects the effect fo the financing instrument on the financial control practice.

The difference between small firms at inception and small growing firms can largely be seen in the review of fixed assets, evaluation and re-evaluation of fixed assets inventories. This can be attributed to the fact that small growing firms at various stages of grwoth are external finance seekers, so as to meet growth needs in terms of fixed assets or capacity expansion. The participating-capital agreement - Musharaka - based on capital sharing stimulate the re-evaluation of fixed assets. Moreover financing under both Islamic and interest-based system is provided under guarantee and higher valued security (see Chapters Seven and Eight), which can be satisfied by the assets of the applicants. Thus, the institutional finance has an effect on entrepreneur awareness of the importance of

TABLE 10.5
TYPE AND FREQUENCY OF INFORMATION
PRODUCED WITHIN SMALL FIRMS

	S.F. at INCEPTION		S.G.F.		TOTAL	
	NO	%	NO	%	NO	%
1. Historical Profit and Loss Account						
a. Weekly	0	0	0	0	0	0
b. Monthly	0	0	0	0	0	0
c. Quarterly	0	0	0	0	0	0
d. Half-yearly	1	5	0	0	1	2.5
e. Annually	20	100	20	100	40	100
f. For Musharaka only	0	0	0	0	0	0
g. Not done	0	0	0	0	0	0
2. Historical Balance Sheet						
a.	0	0	0	0	0	0
b.	0	0	0	0	0	0
c.	0	0	0	0	0	0
d.	1	5	0	0	1	2.5
e.	20	100	20	100	40	100
f.	0	0	0	0	0	0
g.	0	0	0	0	0	0
3. Planning p/c A/c						
a.	0	0	0	0	0	0
b.	0	0	0	0	0	0
c.	0	0	0	0	0	0
d.	0	0	0	0	0	0
e.	0	0	0	0	0	0
f.	0	0	0	0	0	0
g.	20	100	20	100	40	100
4. Projected Balance Sheet						
a.	0	0	0	0	0	0
b.	0	0	0	0	0	0
c.	0	0	0	0	0	0
d.	0	0	1	5	1	2.5
e.	0	0	0	0	0	0
f.	0	0	0	0	0	0

CONTINUED.

g.	20	100	19	95	39	97.5
5. Review of Working Capital						
. weekly	0	0	0	0	0	0
. monthly	0	0	2	10	2	5
. seasonal	5	25	4	20	9	22.5
. on finance application	6	30	11	55	17	42.5
. annual	1	5	2	10	3	7.5
. on review of production	7	35	4	20	11	27.5
. not done	4	20	1	5	35	12.5
6. Review of Financial Gearing						
a. weekly	0	0	0	0	0	0
b. monthly	0	0	0	0	0	0
c. on finance application	0	0	0	0	0	0
d. annual	0	0	0	0	0	0
e. not done	20	100	20	100	40	100
7. Review of Inventory and of fixed assets						
. on finance request	1	5	6	30	7	17.5
. annual	0	0	9	45	9	22.5
. not done	19	95	8	40	27	67.5
. new contract	0	0	2	10	2	5
8. Historical Cash Flow						
. not done	20	100	20	100	40	100
. annual	0	0	0	0	0	0
9. Forecasted C.F.						
. not done	20	100	20	100	40	100
. annual	0	0	0	0	0	0

financial control.

10.2.3 CONTROL OF THE KEY FINANCIAL VARIABLES

In order to determine the difference between the small firm at inception and the small growing firms, with regard to entrepreneur awareness of the importance of formal and most frequent financial reporting, and what they perceived and considered as most important items for them to control and their association with pattern of financing, respondents were asked about which three items in profit and loss account and three items in the balance sheet, did they regard as most important to control.

Table (10.6) shows that sale was regarded as a most important profit and loss item to be controlled by all sample firms. The survey shows that sale control is the founder's and entrepreneur's sole responsibility and direct supervision in most cases. This practice stemmed from the fact that small businessmen often emphasize the volume and amount of sales as indicators of success. The other items signled out by the small firm as most important to control were raw-material and overhead charges. The Table shows that there was no difference between small firms at inception and small growing firms, with regard to ranking of these items, but the difference lies in their weight of importance.

The survey shows an interesting observation that some of the small growing firms (10%) regarded bank charges as a most important item to keep an eye upon. This observation was an indication of the volume of extenral source of finance received by firms in question. Regarding frequency, sales and raw-materials were reported daily, but the difference between the small

TABLE 10.6

CONTROL ITEMS - MOST IMPORTANT ITEMS

	ST. UP.		GROWING		TOTAL	
	NO.	%	NO.	%	NO	%
1. Profit and Loss items:						
(1) sales	20	100	20	100	40	100
(2) raw-material costs	19	95	13	65	32	80
(3) net profit of the year	5	25	7	35	12	30
(4) overhead expenses	12	60	8	40	20	50
(5) Excise duties	2	10	0	0	2	5
(6) Factory expenses	2	10	1	5	3	7.5
(7) Bank Interest Charges	0	0	2	10	2	5
2. Balance Sheet Items:						
(1) Cash and Bank balances	19	95	16	80	35	88
(2) Bank as a Creditor	13	65	10	50	23	57.5
(3) Suppliers as T. Creditors	4	20	15	75	19	47.5
(4) Stocks	14	70	14	70	28	70
(5) Debtors	8	40	12	60	20	50
(6) Assets (F.A.)	0	0	2	10	2	5

firms at inception and the small growing firms practice lies in the degree of variation of process of reporting into formal and informal communciation. The survey shows that most of the small firms at inception (90%) relied on verbal communication, whereas the small growing firms on average (45%) maintained a system built round a certain degree of formality and informality relationships. The degree of informality stemmed from the fact that sales and all other items with direct monetary connotation, were under entrepreneur responsibility in most cases.

The most important balance sheet items perceived by the entrepreneurs reflect the financing pattern. Table (10.6) shows that 88% of small firms regarded cash and bank balances control as a most important item. The survey shows a hardly surprising result that cash control was given the highest priority by all firms, regardless of stage of development. This observation generally explained small business reliance on internal finance, which brought about this sort of concentration on cash control. It was noticed that entrepreneurs were shouldering the sole responsibility of cash control and in most cases were involved in the detailed works of cash recording. This observation explains the mentality of entrepreneur with more emphasis on cash control, perceived as a key success factor, and lack of any sort of planning on cash flow, which questioned cash management in small firms and the capability of the owner-manager to manage cash resources properly.

In addition to cash control, small growing firms (75%), ranked trade creditors as the second most important balance sheet item to control. This factor put the demarcation line between small firms at inception and small growing firms, with regard to financing and control emphasis (see Chapter Five; Table 5.13). In response to the question: "did you have a system for aging and following up of debtors and creditors", 60% of small firms at inception reported that they did not maintain any sort of control on debtors and creditors, simply because they did not deal on credit transactions, whereas 95% of small growing firms tended to keep a system.

With respect to costing data, the survey provides empirical confirmation of Bolton, (1971) observation in the U.K., that the costing data of small firms were very poor. This can be reflected in the calculation of costing data and prices of product accordingly. Most of the small firms relied on prices decided by the Government, as a small producer with little or no influence on price determination - financial mobility concept - Despite the poorness of costing data maintained by the small firm, this factor brought further slight difference between small firms at inception and small growing firms. The empirical investigation shows that 50% of small growing firms prepared a historical cost sheet of their products. This could be attributed to the fact that some small growing firms as also well established ones had some sort of influence on price determination, competing with large and mass producers. The survey shows non-use and non-existence of standard cost techniques in controlling operation and evaluation of performance.

The non use of project appraisal techniques in evaluation of new projects by the majority of small firms (92.5%), was an indication of poor accounting knowledge and low level of sophistication or in other words, a crude and rudimentary system of performance evaluation and investment and appraisal decision practice in the small firm. Small growing firms, with 15% showing slight difference, reported that they used payback method in project appraisal. One noticed that the entrepreneur's lack of knowledge of these terms and most of them (70%) reported their ignorance and had not heard of them.

10.3 PLANNING PRACTICE IN THE SMALL FIRM

There has long been a concern among management theorists about the failure of the small business in developed and developing economies to practice planning. Godde, (1983) pointed out that "the basic tendency of small business is to shy away from planning ... the struggle for day to day survival in small companies saps the amount of attention which can be devoted to planning ... Another tendency of small business planning is that it concerns with the short-run". Still, (1980) concluded that planning in small firms is unstructured, irregular and uncomprehensive.

The evidence from this research effort based on examination of presence and absence of budgeting and strategic planning of the small firm at inception and small growing firms, provides an empirical confirmation of the body of knowledge that financial planning in the small firm is very poor and confined to informal and short-term thinking.

10.3.1 BUDGETING

V. Horn (1975) defined budget as a quantitative expression of a plan of action and an aid to coordination and control. Despite the gloomy picture of budgeting practices in small firms as a whole, in the Sudan, this area brought out a clear difference between small firms at inception and small growing firms. The survey shows that 85% of small firms at inception did not experience a preparation of any sort of budgeting, as compared to 45% of small growing firms experienced very short budgeting practice. On aggregate, 72.5% of small firms did not maintain any budgeting system.

The empirical investigation shows that of those who experienced budgeting practice (27.5%), their forecasts and budgeting was based round the production and manufacturing equation, with a complete non-existence of other types of budget. The survey shows that banks under Musharaka finance or big volume under Murabaha finance, had an influence on the budgeting practice, based and built round the financed transactions.

The reasons reported by entrepreneurs for not practising or producing a budgeting system could be summed up into the following:

- they did not need it
- it is necessary; but we are busy
- lack of ideas and lack of understanding of its significance and importance
- lack of qualified accountants

Regarding the use of budget as a tool of performance evaluation, most of entrepreneurs reported that a budget is based round an estimation of production needs, on an informal basis, and none of the survey firms reported using a system of budgetary control. On budget choice as a planning and control mechanism and device in a small firm, Churchill (1984) concludes that:

> "Large companies concerned about operational efficiency should focus on the coordination and control aspects of budgeting while small and innovative companies should be concerned with planning aspects".

The focal point worth pointing out in this context is what logical and practical steps should be taken so as to remove the barriers to budgeting practice in the small firm. Churchill (1983) added that: "whatever the focus, budget preparation and implementation are important in carrying out company strategy and in professionalizing the smaller company".

10.3.2 STRATEGIC PLANNING PRACTICE

As far as long-range planning is concerned the survey shows non-existence of systematic thinking and formal and written strategic planning in the small firm. This area of management based on informality process marked to a lesser extent the difference between the small firm at inception and the small growing firms, with tendency of expansion and development. The empirical investigation shows that none of the small firms at inception reported their tendency to keep a long-range plan, as compared to 40% of small growing firms, which tended to keep informal thinking or formal and written proposals either as an application for finance or merely as a feasibility study.

There is no need to provide more evidence of an entrepreneur's lack of knowledge. Most of entrepreneurs (70%) reported that they did not need it and 25% reported that they were not aware of it and had not heard of the significance of strategic planning in business management, Walker and Petty (1978) argued that:

"Many entrepreneurs lack interest in planning, since most of them achieved their position as a direct result of their technical, rather than managerial knowledge".

The degree of informality in the planning process, was explained by Golde (1983) in that: "part of the leaning toward informality is explained simply by the fact that writing things down and figuring out details takes time, time which may be well worth expending in the long-run, but which can appear extravagent in the short-run". The empirical investigation adds another dimension that the low level of education of an entrepreneur, lack of managerment skill and misconception of management has an influence on the degree of informality if not non-existence. Thurston (1983) found a justification for the degree of informality in the small business planning process, arguing that: "executives in a small business can take various approaches, ranging from the informal and unwritten to the formal and written. The best approach depends on variables such as administrative style, officers ability and business complexities".

The vital question to be raised in this context is, what are the barriers to planning on the short and long range basis in a small business. It was contented that planning is concerned with the determination of the basic objective/s of the enterprise and the taking of necessary actions to achieve the objective/s. From the empirical survey, the evidence is clear that goals and objectives in specific forms are seldom considered and enunciated. In response to the question, "what level of profitability, liquidity and financial gearing did you aim to maintain, most of the respondents reported non-existence of specific objective and an objective to them was general and very broad reflected in profit-generation, expansion and survival tendency. Still (1980) concluded that: "... basic company goals ... are considered very infrequently, goal setting behaviour is unstructured and subjective". Thus, lack and non-recognition of specific objectives is one of the barriers to planning in the small business.

Lack of knowledge and understanding of the significance of planning in business management, which formed the entrepreneurial attitude towards planning is strong evidence of entrepreneural neglect of the importance of planning function. Golde (1983) observes that planning to small businessmen, means grappling with tremendous uncertainties over which it seems they have little control.

Lack of qualified staff and specialists in small firms could be one of the reasons behind the planning deficiency. A growing number of authors and scholars including Golde (1964), Timmons, Smollen and Dingee (1977), Gilmore (1971) argue that outside professional staff and specialists may be very valuable aids to planning in small businesses as a vehicle to close the entrepreneural knowledge gap. The main constraint of the use of outside professionals and specialists is the attitude of entrepreneurs who are reluctant to use and consult outside professional management (see Chapter Nine). Thus, the first and most necessary requirements for solving and introducing planning concepts in small firms with varying degrees of processes and contents is to make an entrepreneur aware of the cost of non-existence or poor planning and resulting lack of specific objective and financial information. Thus, in the final analysis the issue is the question of attitude and understanding.

10.4 CONCLUSIONS

The empirical findings of this study, have theoretical and policy implications. Some of the implications that emerge from this study are of especial significance for management development institutes and other specialised bodies attempting to help the small business and financial institutions, looking for involvement, in the area of small business financing under various financing mechanisms particularly those instruments, which are based upon capital and management sharing.

Essentially, the empirical study provides confirmation of the research hypothesis (Hypothesis 5) based on a dichotomy between small firms at inception and the small growing firm's financial control practice.

The empirical evidence from this study provides positive support to the conclusions made by scholars (Bolton, 1971; Boswell, 1972; Ray, Piper and Hutchinson, 1975; Golde, 1983), that the financial control systems maintained by small firms are either incomplete, rudimentary or non-existent, and in most cases they are confined to mere technical recording of actual transactions. The research effort has on observation that most small firms have little written communication and the control procedures are usually adhoc and informed, built round an entrepreneur as a dominant coalition acting as an enterpriser managing and controlling a pioneer organisation. An inference can be drawn strongly from this study that the planning in small businesses is very poor, confined to informal and short-term thinking. The lack of planning and poor and inadequate control procedures as a complementary process, implies the neglect of the use of management accounting information for analysis and decision-making.

The empirical investigation has identified that there is a positive correlation between growth and the degree of adequacy of the financial control systems. This, in turn provides confirmation of the contention that there is an interaction between financing and financing control. The crudity and rudimentary profile of the financial control systems maintained by the small firm, in conjunction with the importance of financial documentation in raising institutional finance, a principal inference that can be drawn that the financial control profile is partially responsible for the identified finance gap.

Based on a description of accounting and financial information produced by the small firm, accounting problems experienced by the small business, can be summed up as follows:

1. incomplete and inadequate accounting system
2. no cash flow analysis
3. lack or improper cash management
4. no working capital analysis
5. no budget and no long-range plan.

The accounting problems and rudimentary profile of the financial control system maintained by small businesses can be attributed to the fact that the entrepreneur has a poor understanding of the significance of accounting and does not understand accounting language. This attitude explained the phenomenon of why small businessmen attempt to run a firm without adequate records and trained accountants.

Regarding policy implication as a practical and logical step to provide management assistance to the small business, so as to fill a deficiency in financial control practice, one should start with an entrepreneur and managemnet of a small business, making him aware of the significance and importance of accounting information in operating and managing an enterprise. Educational sessions and management training programmes stressing methods of structuring and administering financial information systems and means of presenting and utilising financial information should be conducted by management developing institutes and other bodies attempting to help the small firm.

Banks and particularly development banks, under the Islamic financing instrument - Musharaka - are usually involved in the management of the business with varying degrees of involvement. This practice questioned the capability of bankers to provide this specialised services and their ability to assess and evaluate the accounting services needed by the small business. This in turn will initiate the role of management development institutes in providing training in small business management to bankers and other concerned bodies.

CHAPTER ELEVEN

THE RESEARCH FINDINGS AND THEORETICAL IMPLICATIONS

11.1 In this empirical study five basic questions have been discussed at length. These are the conceptualisation of small business in the Sudan; the question of financing characteristics and financial profile, as well as the identification of financial difficulties experienced by small firms, the financial institutions' behaviour towards small business financing in a developing economy, the characteristic of the Sudanese manufacturing entrepreneurs and to what extent they affect the financial behaviour and financial control profile of the small firm; and finally, the issue of the financial control practice and to what extent its degrees of adequacy varies with growth rate. These questions have been built round the research analytical framework, and expressed precisely in the research hypotheses. By virtue of their origin, the research hypotheses stood as a link between theory and practice, being derived logically from the Sudan experience (See Chapter 3 and Volume 2).

The empirical investigation has been classified into two phases. Phase one is a pilot study based on a case study approach, with the objective of testing empirically the conceptual framework and developing a testable research hypothesis. The second phase is the empirical test of the research hypotheses on a large sample of both small and large firms, as well as financial institutions operating in the country.

In addressing empirically the research question, the researcher adopted a rational, logical and scholarly precedents of methods, based on conventional analysis of accounting data, supported with material obtained from in-firm interviews. The scope and methodological approach add to the value of the research findings as salient factors in the body of knowledge and as firm platform for practical policy implications. The vital question to be addressed first is what are the major conclusions from the study, and how do the research findings fit into the general body of knowledge, particularly as it relates to small firm financing.

The empirical findings of this investigation have been stated at various points throughout the preceding chapters (5-10). It may now be possible to combine and summarise the main conclusions of the study in relation to the hypotheses and their theoretical implications.

11.2 Hypothesis I

Essentially, the empirical study provides confirmation of the first research hypothesis. The empirical investigation singled out the financial dissimilarities between small firms at inception, small growing firms and large firms in developing economies like the Sudan. (See Ch. 5; 5.3).

With regard to the finance theory, the study provides confirmation of the applicability of the "Even Hypothesis" to such economies as the Sudan, that the life cycle of the firm and stage of development have an influence on financing pattern and financial behaviour of the small firm. The study went further in providing a documented modification to the traditional financial theory that owners' personal savings, supported by family resources, are the most important source of finance at inception stage of development. The small growing profile provides a true and full applicability of the traditional theory.

Regarding family contribution, the study provides conclusive evidence that the role of the family in financing business operations correlates inversely with growth, whereas its involvement in the management of the business correlates positively with growth. The former point explains the accessibility of growing firms to external sources of finance and the latter one emerged from the prevailing social system in the Sudan, built around the extended family concept. This observation leads to a principal inference that small business in developing counties is not only a form of economic activity built solely on commercial footing, but also an interaction of economic, social and psychological forces.

As far as external sources of finance were concerned, the study challenged the established contention in the literature on Trade Credit finance, in the sense that the survey shows that small firms at inception were relatively large users of bank borrowing than of Trade Credit. The small growing firm and large private enterprise show that there is a positive correlation between bank and trade credit facilities and Government credit facilities under bank guarantee and coverage.

The empirical study shows that the very smallest companies at inception tend to finance a large part of their financial needs from internal resources, whereas the very largest companies tend to rely on institutional and external sources of finance. This extends support to the financial mobility concept of Donaldson and the large firm's influence and say on the environment and its ability to raise institutional finance.

On choice of finance, the study provides confirmation of the contention made by behavioural economists that the financial behaviour of the firm is affected largely by the attitude of entrepreneurs and to what extent this will affect the ownership and control of the business. The research identified that the divorce of ownership from control, which is most likely to be found in very large firms, has an influence on the pattern of financing, and mainly on the use of equity finance. Regarding the Musharaka financing instrument, the study has identified that there was an indirect congruence of attitudes between banks and entrepreneurs. Banks do not like Musharaka because the administrative cost is very high, and entrepreneurs disapprove on the grounds that banks become involved in management of the business.

11.3 Hypothesis II

This study has made a significant contribution to the body of knowledge by establishing the financial profile of the small firm at the inception stage of development in developing economies. Small firms at inception rely more heavily on their savings than do small growing firms and large firms, and this has implications for the liquidity, financial gearing and profitability profile of the said small firms at inception stage. The study provides support to the traditional view of the financial life-cycle of the firm (Weston and Brighton, 1978), that under-capitalisation is one of the financial characteristics of the small firm at inception stage of development.

The research goes further, providing support to previous research findings that the small growing firm tends to possess a unique profile, with a certain degree of similarity to that of failed firms, in terms of liquidity and high financial gearing, but differentiated by profitability as a compensation for illiquidity.

The empirical investigation shows that small firms were less debt-oriented than their large private enterprise counterparts.

The empirical finding on profitability challenges the development effect of economies of scale in developing economies like the Sudan, showing that the small business is more efficient in utilising capacity, and is more profitable. This Inverse Correlation between size and profitability is explained by the fact that large enterprises are more subject to macro economic factors than small firms. The observation provides support to the Schumacherian Slogan that "small is beautiful", and provides an answer to the controversial issue of which economic sector plays a leading role in the process of economic development.

The relatively higher degree of profit-retention maintained by the small growing firm was an indication of the success of the management of small growing firms in striking a balance and reconciling the demands of the family and business needs. That sort of financial and investment behaviour in the light of capital shortage posited that the growth question is not confined only to the availability of finance, but rather both finance and management.

11.4 Hypotheses III and IV

Based on rigorous analysis of accounting and non-accounting data of the small firms, in conjunction with their large private enterprise counterparts, the empirical study on multi-dimensional measurement has identified the existence of a small business financing gap in the Sudan. Thus, this research states that a chronic shortage of finance for start-up, expansion and working capital finance is one of the most widespread and typical characteristics of small firms in developing economies. The conclusion reached in this study of the small business financing gap in the Sudan differs sharply from those reached and strongly expressed by scholars in developing countries, into false demand of capital. This finding does not argue the validity of the contention raised by scholars (Bates, 1961) that small business finance gap does not really exist because most small businesses unable to obtain adequate long-term finance are not worthy of these funds, but rather provides firm evidence that small business is discriminated against in the financial market. The average small firm's low level of retained earnings together with a lack of institutional long-term financial facilities, is an indication of the financial difficulties small businesses experience in both meeting start-up capital needs, and sustaining growth.

The finance gap identified in this study, is created by capital market operations, an institutional and information gap, entrepreneurial typology, and financial control deficiency. Thus, the identified finance gap is a consequence of multiple factors beyond the macro-economic factors embodied in shortage of finance in developing economies.

As to the financial institutions' relationship with small business, the research extends support to the criticism of banks' lack of response to new ideas, and their negative attitude towards small business financing. Using a loan-to-deposit ratio, the survey proved that there existed large amounts of un-utilised loan capacity with the Commercial banks in the Sudan. This finding in conjunction with small business finance gap was a good indication of the Commercial banks' behaviour towards small business financing. This state of affairs could be explained by the fact that Commercial banks were highly security-conscious and profit-oriented.

With respect to the development financial institutions, the research findings questioned the philosophical, theoretical and practical justification for establishing these institutions, since they tended to provide finance on stringent security terms and at rates of interest similar, if not higher than those charged by conventional Commercial banks.

Regarding information and advice on financial facilities, the analysis of the supply-side result is consistent with the inference derived from the opinion of the demand-side, leading to a principal premise that there is a 'Bolton Gap' in the Sudan. The information and advice gap was a direct consequence of the policy, and small business institutional gap in the Sudan.

Examination of small business financing from both the demand and supply-side shows that there was an interaction between financing and financial control, in the sense that the documentation has been ranked as an important factor in raising institutional finance. The nature of the bank is an influential factor in providing funds to clients.

The uniqueness of this approach of small business financing gap identification provides a strong and well documented premise as a foundation for relevant and practical policy, and strategy for small business development in the Sudan. The point of strength in this study, apart from the methodological approach, is embodied in the consistency of findings derived from both the supply and the demand-side perspective.

11.5 Hypothesis V

Essentially, the empirical study provides confirmation of this hypothesis based on a dichotomy between small firms at inception and the small growing firm's financial control practice. Empirical evidence from this study shows that the financial control systems maintained by small firms are either incomplete, rudimentary or non-existent, and in most cases they are confined to mere technical recording of actual transactions. The research indicates that most small firms have little written communication and the control procedures are usually adhoc and informal, built on the entrepreneur as a dominant coalition acting as an enterpriser, managing and controlling a pioneer organisation. The lack of planning, and inadequate control procedures as a complementary process, implying neglect of the use of management accounting information for analysis and decision-making.

The empirical investigation has identified that there is a positive correlation between growth and the degree of adequacy of the financial control system. This in turn provides confirmation of the contention that there is an interaction between financing and financial control profile.

The major accounting problems experienced by the small business, can be summarised as follows:-

1. Incomplete and inadequate accounting systems
2. Lack of or improper cash management
3. No cash-flow analysis
4. No working capital analysis
5. No budget and no long-range plan.

The accounting problems and rudimentary profile of the financial control systems maintained by small business can be attributed to the fact that the entrepreneur has a poor understanding of the significance of accounting in business management.

In spite of the methodological issues and limitations of the analysis of the financial control practice of the small firm, being based on description of the information produced within the Company, rather than adoption of methodology for the use of accounting information i.e. participant observation, the research findings have implications for the accounting and financial control theory. The research findings on the financial planning and control practice of the small firm, compared with the observation made by Scholars in developed economies (Bolton, 1971; Boswell, 1972; Said and Hughy, 1977; Larson and Clute, 1979; Lovett, 1980; Ray and Hutchinson, 1983) and developing economies (Besong, 1978; Ohioma, 1979; Osoze, 1981), lead to the principal inference that the rudimentary nature of financial control in the small firm is the common symptom, regardless of the stage of development of the economy. The other theoretical implication of this part of the study is that the attitude of entrepreneurs towards the significance of the accountant's role explain the phenomenon of the small businessman's attempt to run his firm without adequate accounting systems. Thus, the main barrier to the adoption of adequate financial planning and control systems is the entrepreneur himself. Outside professional staff may be very valuable as a vehicle to close the entrepreneurial knowledge gap, but the main constraint lies in entrepreneurial reluctance to consult outsiders.

This investigation not only explains the state of the art, it also present the effect of other variables, mainly family and bank involvement in the management of the business and the degree of informality and formality of the financial control practice of the small firm respectively. The empirical investigation shows that the unique financial profile of the small growing firm is accompanied by a relatively adequate financial control practice, marking the distinction between growing and declining firms on financial control perspective. The direct bank influence under certain types of financing instrument - Musharaka - provides support to Enthoven's (1977) contention on the role of banks in up-grading accounting standards in the Third World.

11.6 The Main Research Findings on the Entrepreneur

We believe that a first step towards establishing the financing and financial control profile of the small firm, is the understanding of the enterpreneur: The empirical Investigation shows that the attitude and vision of the entrepreneur has an influence on the financial behaviour and financial control practice of the small firm.

Economic reward and financial gain were cited by the vast majority of entrepreneurs as the main motive for forming their businesses. Financial gain as a major motivating force at formation and as a current motivating factor is cited by entrepreneurs as a symbol of achievement of other goals; Independence, family image and status, standard of living and prestige.

The research has identified entrepreneural deficiency and entrepreneurial gap in the Sudan, in that the small business was managed in a personalised way. The empirical investigation lends support to the established contention in the body of knowledge that the authoratative style of management is predominant in small firms. The research has identified the influence of family involvement as well as banks on the management style adopted.

With respect to the research contribution into entrepreneurship body of knowledge, the empirical finding on the prominance of financial gain, lends positive support to Timmons (1978) and other writers. The research goes further giving evidence that entrepreneurial motivation for going into business cannot be explained only by economic forces but is rather an interaction of multiple goals.

The study shows that the Sudanese individual's entrepreneurial age at debut is typically within the thirties and early forties. This finding is consistent with the observation made by Watanabee (1970) in Japan, Deeks (1972) in U.S; and Gorman in the Irish Industry. Although the level of education of entrepreneurs in the Sudan is low, the study lends positive support to the established contention in the literature, that entrepreneurs are more educated than their age groups, in a country with a 61.5 illiteracy rate (UNISCO, 1985)

Another significant implications for the entrepreneurship body of knowledge is that there is a positive correlation between the size of the firm and the educational level of entrepreneurs and management, regardless of ownership. This study provides no evidence of a correlation between growth and educational level of entrepreneurs.

11.7 Overall Review:

Apart from the examination of the phenomena of small business failure, we believe the current research has satisfied its stated objectives. The empirical investigation has contributed to closing the small business information and knowledge gap in developing economies. The empirical examination of the traditional view of the financial life cycle of the firm at inception stage of development in developing economies is a real measure of significance and originality of this research effort, addressing the weaknesses of the literature. The scope and methodology of the work indicates that this study has taken one little step to establish the financing experience and financial profile of the small firm at various stages of development in developing countries.

The re-emergence of the importance of small businesses in developed countries, indicates that the small business sector is of major economic significance in advanced countries. This degree of importance and constant stress on the role of small business in developed economies, should provoke developing countries, with meagre resources, scarce capital and shortage of management cadres, like the Sudan, to pay particular attention to their own small business sector. This research as a pioneer empirical effort set out with the objective to participate in closing the small business conceptualisation gap in the Sudan, and to establish a platform for further research and policy implications. It provides evidence that research in small businesses in developing countries, and particularly in the Sudan, is a fertile field and of great theoretical and practical value.

11.8 Direction for Further Research:

It is a truism that no research study is ever really complete, or provides a solution to all questions. This is no exception. During the investigation and process of analysis, many avenues for further research were opened up. This stems from the fact that research is a continuous process, and a logical and scholarly answer to a research question is a stimulus to other research problems. The opportunities and needs for research on small business financing and management are limitless. It may therefore be useful to list a number of topics which the researcher feel deserve further research in the field of small business.

1. Although, the research has identified the symptoms of the small business financing gap, "Sudanese Macmillian Gap", institutional, information and advice gaps, much remains to be done to ascertain why

they exist. Research effort to identify and eliminate the various gaps in their entirety, could make a significant contribution to the body of knowledge and major policy implications.

2. The study examined the financial profile of small firms at inception, the small growing firm and large enterprises on a very short-time series, with small number of sample, addressing a macro issue from a micro perspective, at one point of time, on a classical and conventional scientific approach. Brophy (1983) argues that:-

> "A major deficiency in research on small business finance has been the absence of reliable data for longitudinal, rather than episodic studies".

There is a crying need for further research based on large samples and on the longitudinal approach. The present study may serve as a point of departure for in-depth analysis.

3. This research has discussed in a generalised form, small business financing in interest-based system and Islamic financing mechanism. Research with the objective of examining thoroughly small business financing under both system, will make a good contribution to the controversial issues, following the Islamisation trend and Islamisation of the banking system in the Sudan. Small business and Islamic financing Instruments are new areas and avenues, which will add significantly to the body of knowledge and reveal major practical policy implications for bankers, jurists and policy makers.

4. This study was designed at the outset, with one of its objectives the provision of additional knowledge concerning the factors which contribute to the cause of small business failure in developing

counties. The lack of data on failure in data-poor developing countries, like the Sudan and on the typical psychological ingredients of failure inhibit the realisation of such an objective. But the matter need not end here: research proposes a further programme with the objective of examining the small-business failure syndrome in developing countries, with special reference to the Sudan.

5. In this study, extrepreneurial motivation has been tackled from the "entrepreneur as an individual" angle, which appeals for further research effort, exploring and investigating the motivation of potential and present entrepreneurs in a large sample, on a longitudinal approach and cross-sectorial basis, so as to provide a valuable insight into understanding this "elusive heffalump".

6. In making a comparison between the level of education of entrepreneurs of small growing firms and declining firms sample, the survey shows that there was no positive correlation between growth and success and educational level. The limitation of this analogy is embodied in the methodological approach, in the sense that it was not based on pairing sampling in-terms of numbers and did not take into consideration the variation in the nature of industry and other exogonous and endegenous contingent variables. A suggested topic for further research is the building of dichotomy between successful and unsuccessful firms, from the angle of entrepreneurial typology and profile in developing countries. This would be a multi-disciplinary theme.

7. The analysis and examination of the financial control systems of small firms in this study, was based on the assumption that what is produced is used by entrepreneurs in the decision-making process, and in presenting a case to lenders. This methodological limitation is of high appeal for further research effort, taking the same theme on participant-observation approach. The proposed research effort has both theoretical and policy implications, and would be of great value to management development institutes with the objective of raising the standard of management practice, and banks operating under Musharaka finance.

8. This empirical investigation presents an interesting point, that entrepreneurs of the small growing firm are more willing to delegate production and personnel functions to outside subordinates, while retaining control of finance, sales and other elements of direct monetary connotation. This observation suggests a proposal for a comprehensive research to examine the entrepreneurial attitude towards different managerial functions. The findings would be of major value to management development centres in determining small businessmen's training needs and in selling their programmes.

To build a foundation and infrastructure for small business research in the Sudan, there is an urgent need for the development of a data-base. A group effort must first develop a list of the pertinent data required. Information must then be collected from small businesses in all the various stages of the life cycle. This collaboration would be possible only under institutional back-up, sponsorship and financial support. This idea will be the first step in the process of conceptualisation and institutionalisation of the small business sector in the Sudan. In the long-run research in small business in data-poor developing countries like the Sudan, can be eased by Legislation, similar to the 1948 Act passed in Britain or through the establishment of bank data Companies and departments (i.e. Dun and Bradstreet Inc, U.S.A.).

CHAPTER TWELVE

RESEARCH IMPLICATIONS FOR SMALL ENTERPRISE DEVELOPMENT POLICY IN THE SUDAN

The empirical findings of this investigation have policy implications for small enterprise development in the Sudan. This is a very natural process of empirical research, starting with the formulation of the research question - Grounded theory -, examination of the research analytical framework and development and empirical test of the research hypotheses. This chapter sets out to explain the practical policy implications that emerge from this investigation.

This part of the study is addressed primarily to those who are responsible for, engaged in, or otherwise interested in providing financial facilities advisory, technical and management training and educational facilities to small business, as well as policy makers. It is hoped that this part of the study may be of interest to small businessmen's association and to individual heads of small firms, for it emphasises the framework for small enterprise development in the Sudan, as well as of Government proposed actions and other relevant agencies. This policy proposal might well turn out to be a starting point for conceptualisation and macro-economic policy, supported by well structured measures for small enterprise development in the Sudan.

12.1 Integrated Approach for Small Enterprise Development:

The objective of any development strategy is to optimise the use of the country's resources for achieving long-term socio-economic objectives (Dave, 1980). To introduce a policy for small enterprise development, a vital question needs to be raised at the outset, what are the circumstances over which the policy maker has some control and which are likely to contribute to the development of small business. The establishment of a thriving small industry calls for collective measures of various kinds to help the individual small owner-manager overcome the disadvantages associated with the small scale of his operation.

The need for an integrated approach to develop small business has been expressed on many occasions and implemented in many developed and developing countries. Table 12.1 shows the policy measures used by developed and developing countries in promoting the small enterprise sector. In the United Nations publications on small enterprise development (Bulletin No. 14, 1968), an authority stated that:

> "individual measures will be ineffective unless supported by Complementary action ...".

The collective measures used in this study are biased towards financing and management. A combination of financial and management assistance, not only helps to prevent waste of scarce resources, it is also perhaps the best means of ensuring that managerial performance will improve. Lewis (1955) has pointed out that:-

> "...lending money to inexperienced small business people without supervision is often equivalent to pouring it down the drain. What these people need is first supervision and advice and only secondarily capital....".

Based on the research findings, the proposed integrated policy is directed to eliminate and/or close the identified small business finance gap, information and institional gap and entrepreneurial and managerial deficiency. A strategy for the development of small business has to start with the establishment of macro-integrated public policy, commencing with the conceptualisation of the sector, leading to a well detailed and integrated action plan.

TABLE 12.1 USE OF INTEGRATED APPROACH IN THE DEVELOPMENT OF SMALL ENTERPRISE SECTOR

POLICY MEASURES	DEVELOPED COUNTRIES							DEVELOPING COUNTRIES									SUDAN PROPOSAL
	1	2	3	4	5	6	7	1	2	3	4	5	6	7	8	9	
	U.S.A	U.K.	France	Japan	Canada	Denmark	NETHER-LANDS	INDIA	PHILIP-PINES	INDON-ESIA	MALAY-SIA	NIGERIA	KENYA	UGANDA	ETHIOPIA	EGYPT	
1. FINANCIAL FACILITIES																	
1. Publicly-backed financial scheme	X	X	X	X	X	X	X	X	X	X	X	X	X	Y	–	–	X
2. Commercial Banks' initiatives	X	X	X	X	X	X	X	X	X	–	–	X	–	Y	–	–	
3. Specialised Financial Bodies	X	X	X	X	X	X	X	X	X	–	X	X	–	Y	–	–	
4. Ceiling system	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	X
5. Concessional Interest Rate	–	–	–	–	–	–	–	X	–	–	X	X	–	X	–	–	
6. Leasing Finance	X	X	X	X	X	X	X	X	–	–	–	–	–	–	–	–	X
7. Relaxatn of Conventional Finance	–	–	–	–	–	–	–	X	X	–	–	–	–	–	–	–	
8. Schemes with operating bodies	X	X	X	X	X	X	X	X	X	X	X	X	X	X	–	–	X
2. RELATED SERVICES:																	
1. Information & Advisory Services	X	X	X	X	X	X	X	X	X	–	X	–	–	–	–	–	X
2. Counselling	X	X	X	X	X	X	X	–	–	–	–	–	–	–	–	–	X
3. Tax Incentives								X					X				
4. Investment Incentives								X		X	X	X	X		X	X	X
5. Local Protection								X		X					X	X	X
3. ENTREPRENEURSHIP DEVELOPMENT:																	
1. Supply Promotion Scheme	X	X	X	X	X	X	X	X	X	–	X	–	–	X	–	–	X
2. University involvement in Supply Promotion	X	X	X	X	X	X	X	–	X	–	X	–	–	–	–	–	X
3. Management Training	X	X	X	X	X	X	X	X	X	X	X						X
4. Entrepreneur Incentives	X	X	X	X	X	X	X	X			X			X			X
4. MANAGERIAL AND TECHNICAL ASST:																	
1. Specialised Institutions	X	X	X	X	X	X	X	X									X
2. Technical Follow-up	X	X															X
5. INSTITUTIONALISATION:																	
1. National Small Business Unit	X	X	X	X	X	X	X	X	X	–	X	–	–	–	–	–	X
2. Regional Small Business Unit	X	X															
3. Industrial Estate												X	X				
4. Small Business Office																	
6. POLICY:																	
1. Declared and Publicised Policy	X	X	X	X	X	X	X	X		X							X
2. Ministerial Position (Government)		X		X													X

12.2 Public Policy:

Although small businesses have special advantages, they also have special problems and difficulties. The empirical research has identified the entrepreneurial deficiency (Ch. 9). The entrepreneur's creditworthiness, most likely, would not be good enough to enable him to get sufficient finance from banks (Ch. 7 and 8). Thus, small business position is quite vulnerable as compared to large industry which has the power and say in the economic environment. (Donaldson, 1970). The proposed public policy has to be declared and publicised round these issues.

For a successful and practical small business development programme, certain measures are necessary at the policy level:-

a) The expression of the political 'will' and commitment of the Government.

b) Translating the policies to strategies and operational measures, full public knowledge and information about the programmes to be achieved. In this regard Bannock (1985) pointed out that:-

> "The reasons for the previous lack of sucess "of the small business policies" are numerous and differ for each respective policy innovation. One common and fundamental indirect cause can, however, be identified: The inability of interested parties to publicise what needed to be done".

c) Enumerating incentives to the small business sector in terms of financial, fiscal policy and others.

d) An important policy measure requiring considerable attention is the proper monitoring of the development programme and its progress. Many developing countries (Egypt, Sri Lanka, etc) have set up small industries programme for the sake of having a programme. In the absence of any monitoring or co-ordinating mechanism incorporated into it, the programme will lose the necessary impact. (U.N., 1968). To create a factor of success for the proposed policy, the level of authority directing policy measures has to be raised sufficiently. It will be prudent to take the successful experience of other countries and to make persuasion from the very beginning, bearing in mind the issue of formulation, implementation and follow-up process of the programme. The services and facilities needed to support small business is an explanation and translation of the public policy. To these points, we direct our attention now.

12.3 Financial Facilities:

One of the most crucial gaps identified in this study inhibiting initiation, survival and growth of small business relate to the non-availability of financial faciliteis on easy terms to small businesses. (Small business financing gap - Ch. 7). The vital question to be raised is what policy measures can be introduced to eliminate and/or close the identified finance gap. The subject policy measure is not a discrimination in favour of small businesses, although it is logical and justifiable, but rather to create an equal opportunity for small business. The research has identified that there is a vicious circle operating in the country. On the one hand, banks feel handicapped in providing credit to small businesses in the absence of satisfactory security and the credit squeeze system, whereas on the other hand, small businesses lack information on financial facilities available and are incapable of producing a good financial case to lenders (Bolton Gap).

12.3.1 Financing Strategy and Philosophy:

To establish a financial package, to design and implement a financial scheme for small enterprise development, the basic questions needing to be addressed at the outset are what is the theme of the financial strategy to be adopted, and what are its logical and practical justifications ?

A number of scholars (Myrdal, 1968; Lipton, 1976; Myint, 1971; Shaw, 1973 and McKinnon, 1976) argued that the control of interest rates in most developing countries, apart from limiting the capacities of the intermediaries to raise resources, has necessarily led them to concentrate their lending on low-risk, large borrowers. A financial strategy based on concessional rates of interest has been proposed by some writers and practitioners in the field of small business and adopted in many developing countries. This financial philosophy and practice could mainly be criticised on the grounds of financial institutions' difficulty to keep interest rates low and accept high risk and losses in the short and medium term. (Anderson, 1982). This argument of imbalance following a concessional rate of interest is familiar from the literature on uncertainty in capital market (Akelof, 1970). Based on this argument the financing schemes and programmes proposed in this policy have to be based on non-concessionary interest rate. The logical justification of this financing strategy is that uncertainties faced by financial institutions, both public and private and high risk of default and death of small businesses, would still lead them not to lend to small firms.

A publicly backed risk guarantee scheme is needed, to absorb the initially high risk involved in small business financing and to provide a partial solution to the vicious circle identified in the capital market. This scheme has to be built round the formula that the lending to financial institutions is likely to be profitable and interest rate equates to volume of risk involved. Otherwise the justification of the proposed loan guarantee scheme is in question and financial institutions, regardless of type and ownership will not respond to it.

A number of problems have been singled out in different countries which adopted public guarantee schemes. Problems in putting the scheme into practice relate to:-

1. How can Government share the risk, and what Government institution takes the responsibility of selecting suitable firms for investment.

2. The gaining of co-operation of the financial institutions.
3. The accountability of public funds.

The first problem could be solved within the administrative arrangement of establishment of a Small Business Unit within the Central Bank, as a policy-making organ. Thus, the Central Bank, under this proposal, will be in charge in controlling the proposed publicly-backed guarantee scheme, providing a guarantee to financial institutions involved. The second issue can be solved by creating a balance between risk sharing and profitability, so as to gain a positive response from financial bodies. As to public fund accountability, in the I.L.O. Report (1971) an authority stated that the question of small enterprise development is how much public money should be spent on financial assistance to small business. In proposing a loan guarantee scheme under Government security, there are two questions of priority involved: First, given the shortage of capital and the many competing demands for it, and given the broad economic and social objectives of public policy, how much public money should be spent on all forms of assistance to small businesses and second, how much of this should be devoted to financial assistance under a loan guarantee scheme, as distinct from other terms of assistance. This empirical investigation into efficiency and optimum utilisation of resources provides a justification for devoting public money to small business development. The importance of the sector is shown by the fact that Small Business represents 97% of the industrial economy and, thus plays an important socio-economic role.

The introduction of a loan guarantee scheme under Government sharing of risk, implies public intervention in the capital market, not only as a regulator, but also as an operator. The Public Intervention in this form has found practical justification even in free market economies. Wilson (1983) argues that:

> " The main thrust of public sector intervention in the UK has been to eliminate alleged discrimination against small enterprises, ensure equal access to capital, premises and product market and provide incentives to increase the supply of entrepreneurs and hence the birth rate of new firms".

Hanlen adds that:-

> "..... The thrust of public sector intervention is very much in line with the removal of discrimination".

On 'Report to the President on Minority Business Enterprises', (U.S., 1970) Stans states that:-

> "The United States can not afford to continue wasting the potential contribution to economic progress which rests with those who have in effect been excluded from the system. Productive capitalism thrives on broad competition. Increasing our base of entrepreneurs will not exhaust a limited market place. On the contrary, it can increase both the size and the quality of the enterprise economy. In that process, all can benefit".

A Credit Guarantee Scheme proposed in this policy measure, based on risk sharing between the Government and financial institutions is borrowed from the experience of other countries in developed and developing economies. (U.K., Japan, Uganda, Nigeria, India and Mexico). Anderson (1982) in the World Bank paper articulated that:

> "A relaxation of the administrative control is a necessary criteria for achieving an efficient flow of finance to small-scale industries, but in itself, it is not a sufficient condition. The right combination of policies, it is argued, is a relaxation of the controls combined with intervention to address shortcomings, essentially of an institutional nature in the capital market. The suggested interventions take the familiar forms of lending by the development banks (at non-concessionary rate) and publicly-backed risk-sharing schemes available to the private sector".

From this review, the financing philosophy and financial strategy measures under this policy proposal for small enterprise development in the Sudan, is based on the following dimensions:-

1. Financing of small business has to be based on non-concessionary rates of interest.

2. Creation of publicly-backed guarantee schemes based on the balance between interest rate and risk involved in providing finance.

3. Consideration of small business financing in the national credit policy, with a directive to banks followed by quantative and qualitative control.

4. Development finance.

5. Financial facilities must be supported by managerial advice as a complementary process.

12.3.2 Small Business Requirements and the Policy:

In formulating a scheme or policy of institutional small business credit and financing, a particular requirement of small businesses needs to be considered: the fact that small businesses require long and medium term finance for acquiring fixed assets, and short-term finance for working capital.

1. Seed Capital:

The research has identified that the most crucial problem of small business financing is usually that own capital is insufficient (under-capitalisation). Admittedly, this is not a problem peculiar to small business in Sudan, it is encountered in many businesses of all sizes in developed countries (Bolton, 1971; Weston and Brigham, 1978) and developing countries (India, Nigeria). Secondly, the traditional attitude of bankers all over the world is to be guided primarily by considerations of security, rather than of eligibility.

> "The lack of start-up and seed capital is explainable by the fact that the risk capital, which owners are willing to run the risk of losing in the hope of high returns - is scarce". (U.N., 1968)

The difficulty in getting start-up capital has been partially solved in some countries (U.S., U.K.) by setting-up a specialised investment and financing body of sufficient size and standing. In the U.K., another Government innovation in the field of finance for new businesses is the "Business Start-Up Scheme". A start-up scheme based on equity financing is neither acceptable nor workable in developing countries like the Sudan, where small business is built around the extended family concept and entrepreneurs are not willing to dilute their control and power, by providing a stake in the business to a partner outside the boundary of the family.

A proposed Credit-Guarantee Scheme may create a guarantee level for banks to provide finance to small businesses at formation and would not affect the psychology of the entrepreneur. To maintain the risk and profitability formula, the Government has to bear 80% of the risk sharing against financing start-up capital, under a loan guarantee scheme, and the financier the remaining 20%. This equation of balance stems from the fact that small firms at formation stage are unlikely to provide satisfactory security and the death rate of small businesses at inception is very high. (Birth, 1975).

2. Institutional Long-Term Debt Gap:

The research has identified that small business is commonly at a considerable disadvantage in obtaining long-term loans (MacMillian Gap). A first reason why small firms find it difficult to raise institutional long-term loans is that commmercial banks and other lending institutions are usually principally concerned with short-term credit, since lending institutions which accept short-term deposit must observe their liquidity ratios.

Governments in many countries (U.S., U.K., Sweden, Denmark, Japan, Nigeria, South Africa, etc) have provided long-term financial facilities to small businesses either directly, by initiating specialised schemes, or indirectly through financial intermediaries. The question of long-term finance is the issue of development finance which requires special institutionalisation set-up.

To provide development finance, there are three approaches to follow on individual or a collective basis. One is the establishment of a development financial institution wholly owned and operated by the Government. In the Sudan, the Sudanese Industrial Bank (S.I.B) was established in 1962, with the stated objective and intention to promote and enhance industrialisation trends in the country (See Ch. 5 and Ch. 8). This approach with the experience of the 'S.I.B.' in the Sudan has proved a failure, because of Government lack of resources, Government intervention, and the inability of the Bank, as a Government unit, to deal with international lenders in raising funds.

> "The effectiveness of development banks in the Third World countries, may have been lessened by the general lack of information concerning objectives for development and conditions for providing funds". (U.N., UNIDO, 1979).

To enhance the 'S.I.B.' experience, detailed policy formulation towards the small business financing, as well as capital, needs to be injected into S.I.B., so as to up-grade the activities of the bank. According to the S.I.B. Act (1962), the bank does not provide working capital finance. This Act increased the outstanding debt of the bank, and thereby affects both its financial capacity and financing operations. The Bank Act requires amendment.

The second approach, adopted by many countries is to render financial facilities in indirect form, often by setting up a finance corporation owned and operated jointly by Government and private institutions, or in the form of Government guarantee provided by private or public financial institutions.

Borrowing the experience of other countries in both developed and developing economies, development financial institutions proved to be useful and efficient development instruments in mobilising local and external resources. Development financial institutions have the power, channels and creditability to raise foreign aid, particularly in an economy experiencing a severe shortage in hard currency. Nouvel, (1977) showed that the World Bank has, in response to the increased attention to small enterprise development, been putting more emphasis on employment creation in urban areas through assistance to small-scale relatively labour intensive enterprises. This has meant enlarging the spectrum of end users of World Bank assistance, and also enlarging the spectrum of intermediaries to provide this assistance (Ray and Hutchinson, 1983). The World Bank as an international lender usually channelling funds to development financial institutions (DFIs). Mistry (1979) articulated that:-

> "The World Bank saw DFIs as catalysts for capital market development in the Third World".

In "UNIDO and World Bank Symposium, Zurich, 1979" an authority (I.B.R.D. Representative) states that:-

> "The DFI mechanism has proved to be a highly efficient means of assessing investment needs and proposals, and of allocating investment resources - mainly for industry -, but increasingly in other sectors as well. It permits a flexibility in the administration of block funding, and adaptation to local needs and changing conditions, that national plans and international project financing are often incapable of achieving. If used as a channel for international finance, the DFI helps to enlist local initiatives and reinforce local criteria for decisions regarding use of external funds. They also reassure foreign lenders or donors that the reserves made available will be used rationally under proper supervision - towards agreed objectives".

Based on these arguments, the S.I.B. and Sudan Development Corporation (S.D.C.) and its subsidiary company, Sudan Rural Development Finance Company (S.R.D.F.C.), have to participate actively as development agencies in providing development finance to small businesses at various stages of development.

To augment the development finance provided by development agencies, along the way to close the institutional long-term debt gap, a Third approach to be followed lies in the Bank of Sudan's monetary, and financial and credit policy governing the supply of money in the capital market and commercial banks' operations. Under the proposed measure, a certain percentage of lendable resources of the commercial banks in both the public and and the private sector should be earmarked for supply of credit and finance to small business on long-term basis. It should be obligatory for the banks to extend a certain percentage of their total credit supply to this priority sector. The practical justification of this measure is the existence of unused lending capacity maintained by commercial banks, identfied in this empirical investigation (discussed in Ch. 8). To attain a good result from this policy measure, both quantitative and qualitative control need to be maintained by the Central Bank, namely the proposed Small Business Unit.

The main non-conventional method of financing which could broaden the horizon of development banks and private and public commercial banks and make more significant their developmental contribution to small business sector is leasing arrangements. Leasing, as a medium-term finance, represents a contract, which gives a company possession and use of a particular asset/s in return for payment of a rental charge over a period of time. Leasing is an attractive source of finance for firms seeking expansion which are otherwise unable to raise capital in the market place or for firms whose scale of operations would not justify outright purchase of costly equipment.

Under this financial package proposal, leasing arrangements could be introduced to stimulate demand for capital goods, and could assist in closing the small firms' long-term debt gap, and also motivate banks to provide institutional long and medium-term finance. Leasing arrangments fit into the Islamic banking mechanism under 'IGARA' finance.

Leasing arrangements are not free from problems. The system has obvious drawbacks and they must carefully be examined before putting the scheme into practice. On the macro-economic level, leasing could be criticised on the ground that it might stimulate demand for capital goods before the economy is in a position to increase supply. In such circumstances, the primary burden may fall on imports and foreign exchange reserves and be seen as economically inopportune (Richardson, 1979). Secondly, leasing requires well trained personnel and a highly skilled cadre in the financiers and financed firms, a condition unlikely to be satisfied by small firms in the Sudan, with crude and rudimentary financial information systems. With respect to banks and bankers, a participant in a small Business Seminar (January 1985, Sudan) commented that:

> "Bankers are trained in banks which are large and traditional. We need new training bankers to satisfy small firms".

Thus, the introduction of leasing schemes requires an economic policy, a well designed and structured importation policy, management assistance and advice to small firms, and finally, training programmes for banks' managements.

3. Short Term Credit:

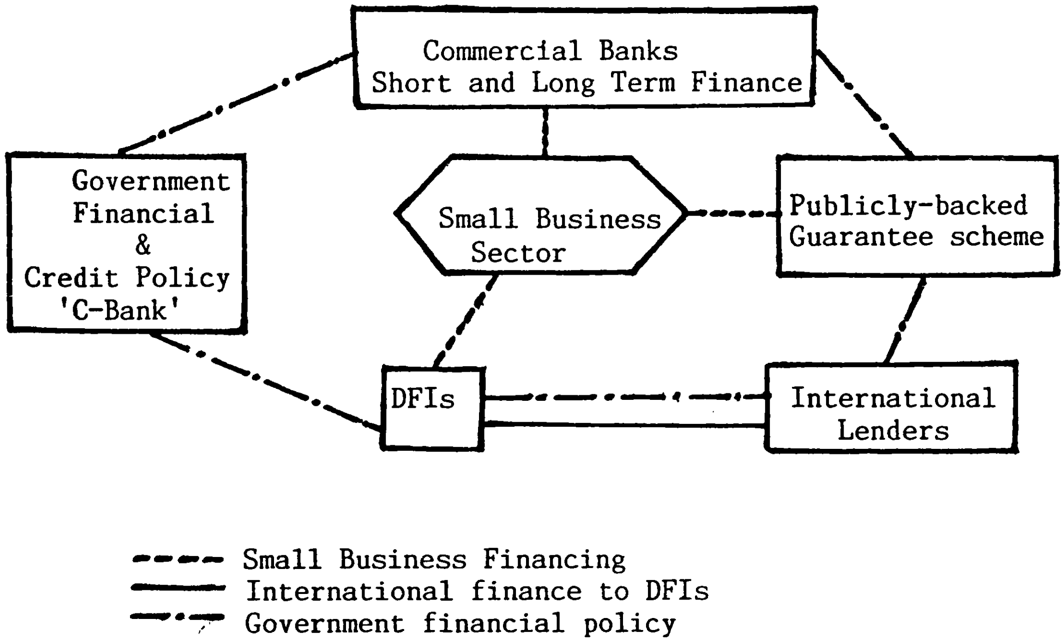
Despite the shortage of capital and the existence of "The Sudanese Macmillian Gap" identified in this investigation, the research has proved that it is usually relatively less difficult for small firms to obtain short-term loans than institutional long-term credit. In the Sudan, the credit system is not sufficiently well developed or widely spready to meet the needs of small industries for short-term credit. To close this gap, a certain policy measure has to be introduced in the financial market, to put a certain percentage of the loan capacity of commercial banks into short-term small business financing. Moreover, development financial institutions (DFIs) have to introduce a new measurement, shouldering the responsibility of providing initial working capital finance. This appeals for a change in development banks' conventional approach in providing funds and increasing the velocity of the bank resources, by minimising the outstanding debts.

12.3.3 Institutionalisation of Small Business Financing:

The financial system in the Sudan is entirely regulated and managed by the Government. The Central Bank exercises quantative and qualitative credit control in the Sudan, primarily by deciding the Credit ceiling of the Commercial banks and the allocation of banks' resources. (discussed in Ch. 8). The financial institutions operating in the country possess the capacity or potential for small businesses to develop. The research has identified that banks in the Sudan are not in favour of small businesses, because of lack of policy and existence of small business conceptualisation gap at policy and at financial institutions level. The policy under review is not proposing establishment of a specialised financial body for small business financing at this initial stage, but rather to direct and inject small business financing programmes and measures within the existing framework thus, the question is, the issue of policy, co-operation, understanding and power to implement a small business development programme within the existing financial bodies. This approach would validate this proposal under cost-benefit formula, as a cost effective approach.

FIGURE 12.1

Proposed Mechanism for Channelling Funds to Small Business



To implement the proposed financing programme, the study proposes a new department or unit within the Central Bank, which will co-ordinate the development of small business programmes with other concerned agencies and departments. The subject unit would be a part of the integrated model as a policy making body on financial issues, in co-ordination with other units set up, or involved in the development of the small business sector.

The 'Small Business Unit' in the Central Bank should be given the duties to co-ordinate the flow of funds to development agencies in co-ordination with the Ministry of Finance, and to control the Government Stake in development agencies directed towards small business financing, as well as the Government share in the risk invovled in the proposed loan-guarantee scheme. The unit should be given the power to negotiate on behalf of the Government on

International finance, and to allocate the raised funds to development agencies for channelling funds directly to small business. (Figure 12.1). The proposed Small Business Unit can be treated as a seed for Small Business Administration, similar to that established in the United States (S.B.A., 1953).

The propsed 'Small Business Unit's' activities can be expanded to reduce or close the information gap identified in this study between banks and entrepreneurs. On behalf of the banks, this can be done by establishing offices in Commercial and development banks to provide information and advice to small businessmen. A co-ordination on technical level needs to be maintained by the proposed specialised offices and Small Business Unit. The Bolton Committee in the U.K. produced evidence of the importance of the branch bank manager as a major advisor to small firms. The main conclusion of Bolton that the branch manager could best help his small firm customers by insisting on them preparing budgets, and providing advice on the costs and availability of different forms of finance (Back, 1980). Wilde (1973) states that:-

> "Bankers now need to know about investment, taxation, leasing and factoring, to name only a few of the financial services and to advise their corporate customers on a whole range of financial matters".

In examining financial institutions and small business relationships in the Australian economy, Bird and Juttner (1974) argue that:

> ".... it might be more effective to create a new position, small business adviser ..... the bank manager would then put the small businessman into contact with the specialist when financial advice or long term financing was sought".

On behalf of the entrepreneur, the unit can produce regular printed material on financial facilities available to small businesses on central and regional levels. To close the identified information gap, the proposed measures have to be substantiated by creating a communication channel between the Small Business Unit and the Chamber of Commerce and Industry, and also the Sudanese Businessmen's Association.

More specifically, the function of the Proposed Small Business Unit in the Central Bank can be detailed as follows:

1. Supervise and direct Commercial banks lending to small business in collaboration with the Credit Control Department.

2. Co-ordinate and negotiate the flow of development finance from international lenders to DFIs.

3. Collect and disseminate information about available sources of finance, in collaboration with the Commercial banks and DFIs.

4. Participate in setting up a development policy for small business as a part of the proposed national Small Industry Board. (S.I.B.).

The institutionalisation of small business financing requires banking staff with an understanding and knowledge of small business. The proposed Loan Guarantee Scheme under Government participation and Control requires Small business specialists with financing and accounting knowledge geared to small business.

"The banking system and bankers' attitude has to be changed so as to furnish room for small firms". "Small Firm Seminar, Khartoum, 1985;" (FIB Rep).

On the organisational level, the Director of the Small Business Unit should report directly to the Governor of the Bank of Sudan. This power will facilitate the influence of the unit on the formulation of the national credit policy. To create and furnish a co-ordination base, the Director of the Unit would be a member in the proposed Small Industry Board (S.I.B.)

12.4 Entrepreneurship Development

The programme for development of small business essentially should contain the programme of entrepreneurship development. The encouragement, motivating and entrepreneurship training programme, when initiated, should aim at:-

1. Motivate entrepreneurs to take positive action in the promotion of small Industrial projects, and

2. Provide information and knowledge on the subject of involvement.

A strategy for the devleopment of entrepreneur would seem to involve the following points: First, at macro level, to start with the establishment of public policy (12.2). Second, initiation of programmes to enhance the supply of entrepreneurs in the market, as an agent of change, and to improve the efficiency and effectiveness of entrepreneurial activities. The first part of this strategy is discussed within the public policy (12.2). Thus, this part of the chapter is devoted to initiation of programmes capable of enhancing the supply of entrepreneurs, so as to increase the small business birth rate, and to improve the entrepreneurial efficiency, in an attempt to minimise the small business death rate.

12.4.1 Entrepreneurial Supply:

The enhancement and promotion of entrepreneurial supply in the market can be achieved by various measures and policies. Based on the contention that the educated people operate better as entrepreneurs, the McClelland approach in stimulation and promotion of entrepreneurial supply can be adopted in the Sudan. This approach can be built round a comprehensive scheme in connection with the proposed publicly-backed risk guarantee scheme, focusing on educated, unemployed or people in disguised employment. This approach has a social and economic value in the Sudan as a result of unemployment of University graduates in certain specialised fields and flow-back of expatriates and immigrants from Arab petroleum countries, following the recession and international fall of oil prices. At macro-economic level, this approach can guarantee the promotion and development of the productive sector, with positive impact on the G.N.P. and curtail parasitic activities.

The universities and other academic institutions within the educational system, could take a significant role in stimulating and encouraging potential entrepreneurs. (Harvard and Babson College approach in the U.S.A.). The experience of developed countries proved the sucess of universities' influence on entrepreneurship promotion. A recent report at the Stockholm School of Economics concluded that 20 per cent of students taking the small business option between 1977-1982 have started their own firms. In the U.K., a similar result at the Cranfield School of Management showed that of the 50 students taking the first credit course offered in entrepreneurship and small ventures, about half subsequently opt for the longer follow-up option on the same topic (Harper, 1981).

The educational system, and particularly higher education in the Sudan, is structured to provide a specialised cadre to public and private sector and civil servants (Yagoub, 1972). There is no University or academic institute providing courses in small business. Thus, there is no entrepreneurial education in the Sudan. The objective of this part of the policy is to fill this gap and to initiate programmes for Universities in shouldering this responsibility. This appeals for the introduction of small business courses as an under-graduate subject for Business, Economics and Engineering Students as a starting phase. Business, Economics and Engineering students would be given priority, because they are most likely either to establish their own businesses or to be recruited by small businesses. The proposed course has to address the issue of small business, entrepreneurship, and other aspects of small business financing and management. The proposed course has two purposes; to create knowledgeable potential entrepreneurs and to build a platform for policy-makers, consultants and advisors with small business understanding. Business Schools or departments have to shoulder this responsibility of formation, content, teaching and continuous evaluation and improvement of the programme. Departments of business administration in the University of Gezira and Khartoum could take the initiative to implement such a programme.

Despite the importance of small business courses as an approach to promote the supply of entrepreneurs, it is no easy task to introduce and develop this sort of programme. It is a very long process and requires considerable effort for universities as well as education policy makers. Haskins (1986) enumerated a number of problems and difficulties in western developed countries, which are most likely to be found in developing economies like the Sudan, and are aggravated by the characteristics of developing countries.

1. Small business teaching requires specialised staff. To the researcher's knowledge, there is not one such specialist in small business in all the universities in the Sudan or the Management Development Centre.

2. Course content and focus: a great deal of time and care is required to develop an appropriate course content and focus and how to match small business courses with specialisation.

3. Material and Method: different teaching materials and approaches are required with more emphasis on case-study approach (Harvard-style). This implies the need for financial support to put into practice the proposed programme.

4. Continuous evaluation and improvement requires specialists in the development of courses, which are unlikely to be found in the Sudan.

To find remedies to the identified difficulties, the universities, with Government support, has to start the implementation process, by developing staff in the area of small business.

to create a base for the universities in shouldering this responsibility, it is proposed that the universities have to be represented as members in the proposed Small Industry Board. This membership will create a foundation of co-operation between Government units, banks, research centres and management and technical institutes and universities in the promotion of the small business sector. The success of the McClelland approach as a complementary process depends largely on the degree of involvement of universities and other academic institutes.

In the Sudan, there appears to be sufficient potential entrepreneurs; what is lacking is motivation, which in turn depends on other factors, external and internal. Proper information and guidance is one of the most important factors. The horizontal growth or the duplications of similar types of industries in the Sudan is the result of lack of information or knowledge on the part of entrepreneurs. Here, institutional assistance is needed to give proper guidance.

The potential entrepreneurs have to be supplied with information covering the business opportunities and their basic requirements in the forms of human and financial resources. They are to be made aware of other external factors which affect their endeavour, such as Government regulations, and other economic indicators. The Investment Bureau has to issue a continuous flow of information through all information media. This requires economic inteligence and investigation services for the Government and the Investment Bureau in particular. The National Research Council and the Development Studies Centre (U. of K.) have to serve as the Government's eyes. This could be done; first, these institutes would undertake industry-wise studies to identify the problems inhibiting development, and suggest remedial measures. Secondly, they would identify the scope and prospects for the manufacturer of different items on the small-scale. Thirdly, they would undertake certain specific topic or problem studies and make available useful information to the Government for the formulation of policy from time to time. Finally, these institutes could conduct economic studies on a regional basis to bring out the prospects and scope for the development of small business. This in turn would help regional authorities in formulating their programmes.

To furnish a foundation for a healthy small business sector, integrated technological and economic research is needed. The Ministry of Industry has one Institute, the Institute of Industrial Research and Consultancy (I.I.R.C). The Institute orientation is towards the provision of technical advice and its main activities are technical consultancy and feasibility studies. This Institute, in collaboration with specialised schools in the universities, would be assigned the responsibility for technological research as a provider of information to policy makers.

Regarding economic and technological research, the main question is the issue of funding, which hampers and inhibits research work in the Sudan. The proposed Small Industry Board has to allocate funds for research into small business. Regional Governments, as well as banks, could participate positively in funding the research effort. Some research projects will probably be undertaken on the initiative of the research institutes themselves, because they are felt to be of national importance, or at least of importance to large numbers of small industrialists. International organisations could be approached for help on financial and techncial levels.

The entrepreneurship development is not to flood the market with 'parasites', but rather to supply efficient and knowledgeable entrepreneurs. To this point, we direct our attention now.

12.4.2 Management Training:

The other meaure of entrepreneurship development strategy proposed in this study is to increase the efficiency and effectiveness of existing small businesses, by providing managment assistance, management training, counselling and advice to entrepreneurs. This stems from the research findings showing the entrepreneurial and managerial deficiency of small businesses in the Sudan.

The combination of education and management training is positively correlated with greater success. Thus, in order to improve efficiency, and to close the entrepreneurial gap, specialised management training programmes meeting the needs of small entrepreneurs have to be launched. The researcher believes that management assistance to small business could be carried out through both entrepreneurs' training and advisory services.

With respect to problems and difficulties encountered in management training of small business owner-managers, an I.L.O. authority states that:-

> "The major problem is to convince small-scale industry managers that they need and can benefit from training. This difficulty is aggravated by the fact that ...

> ... it is often extremely difficult for the man at the top to leave his business even for a day or two to attend courses. The experienced owner-manager is usually a knowledgeable man in his own field and is seldom prepared even if he has the time, to sit at the feet of a teacher and absorb uncritically what the latter has to tell him"

The other problem is that data concerning the training needs of small business sector in the Sudan is lacking. The reason for the difficulty of obtaining such data is that the small business sector is not officiallly recognised by the Government.

Despite the difficulties surrounding management training for small businessmen, a number of training programmes and specialised bodies have been established in developed and developing countries. In Europe, there is an increasing number of programmes offerred in this area (Polytechnic of Central London, London Business School, (Britain)); Management Centre, Ireland; University College, Dublin (Ireland); IMI, Geneva; Swedish Institute of Management and the Research Institute for Management Science at Delft, Netherland. In the U.S. the (S.B.A) and its specialised affiliated institutes provide management training and couselling throughout the country, through a well structured and developed network in collaboration with management institutes and universities. In developing economies, a small industry service institute was established by the Indian Government, to provide managerial training to entrepreneurs. The experience of India has been borrowed and replicated in some African, Asian and Carribean countries - (Malaysia; South Africa; Philippines; Nigeria).

Throughout the Sudan, there are a considerable number of training centres attached to Ministries. Government departments and banks in both the public and the private sectors. These centres specialise in tailor-made courses to suit the needs of the units to which they belong.

The Ministry of Labour controls the Management Development Centre (MDC) and the Sudan Academy for Administrative Science (SAAS). The Management Development Centre is an autonomous national body set up for training, consultancy and research in the field of management with the objective of upgrading managerial ability and practice of businesses in the public and private sector. The MDC activities are in General Management, Marketing, Management Accounting, Personnel and Industrial Relations and Supervisory training. In 1976, the M.D.C had established a small business section under I.L.O sponsorship. Due to the lack of understanding of the issue within the M.D.C, the section has not developed as hoped. The training programme of the M.D.C. has no small business orientation, although there is a recognition in the management of the centre of the need for recreating the section and initiating management training programmes for small business.

Under this policy proposal, the researcher believes that the M.D.C. is a suitable national body to take the responsibility for providing this sort of service to small businessmen in the Sudan. The Centre could borrow the experience of other institutes in this area. Before taking this plunge, the M.D.C. has to answer satisfactorily the questions posed by Haskins (1986), which could be summarised as follows:-

1. Are we committed to this area ? and does it complement the image we have already developed ?

2. Have we looked into the challenge of establishing this programme ?

3. Is our staff motivated and equipped to carry them out ?

4. Do we have the interest, time and money to develop special material and methods for small business training ?

5. Given the difficulties in 'reaching the small businessman' do we also have the time and money to use the variety of marketing channels required to promote these kinds of programmes ?

6. Is Government or other sponsorship available for small business programmes, or will we have to 'go it alone' ?

To provide management training to small business, training programmes have to be set up on a research basis. Thus, the first activity to be carried out by the M.D.C is to conduct a comprehensive research with the objective to determine the training needs of small businesses at various stages of development. This foundation could be carried out by the Small Business Section in collaboration with the Research Section in the M.D.C.

In management training, a distinction is sometimes drawn between appreciation and application courses. The appreciation courses are short and designed to provide managment with a general understanding, using practical illustrations of basic factors affecting the operation of the business. Appreciation courses may well benefit lower level management, but are primarily intended for top managers. Application courses on the other hand, are designed to provide training in practical application of modern management methods and usually have to be longer and more systematic than appreciation courses (I.L.O, 1982). The research has identified the involvement of entrepreneurs in all operations and their attitude is the main factor behind the managerial profile of small business. In this regard, the research has proposed the setting-up of a training programmes based on a combination of the appreciation and application approach. Appreciation courses will be addressed to entrepreneurs of small businesses at various stages of development, with the objective of improving overall management practice of small business, whereas the application courses will be mainly for the small growing firm.

Based on this research observation, the proposed training programmes should address the following issues at the initial stage:-

1. To provide entrepreneurs with tools that will help to manage the business efficiently and effectively.

2. To impart to entrepreneurs the knowledge required and importance of accounting and other functional areas in the business management, with the objective of changing the entrepreneurial attitude.

3. The research has identified the relationship between family and management succession; thus the proposed programmes have to help deal with these problems and provide training to sucessors and those who will be owner-managers.

To provide effective and useful training programmes, three factors have to be satisfied; the content, the training methodology and the quality of the trainer or instructor. As far as the training methodology is concernd an authority has stated:

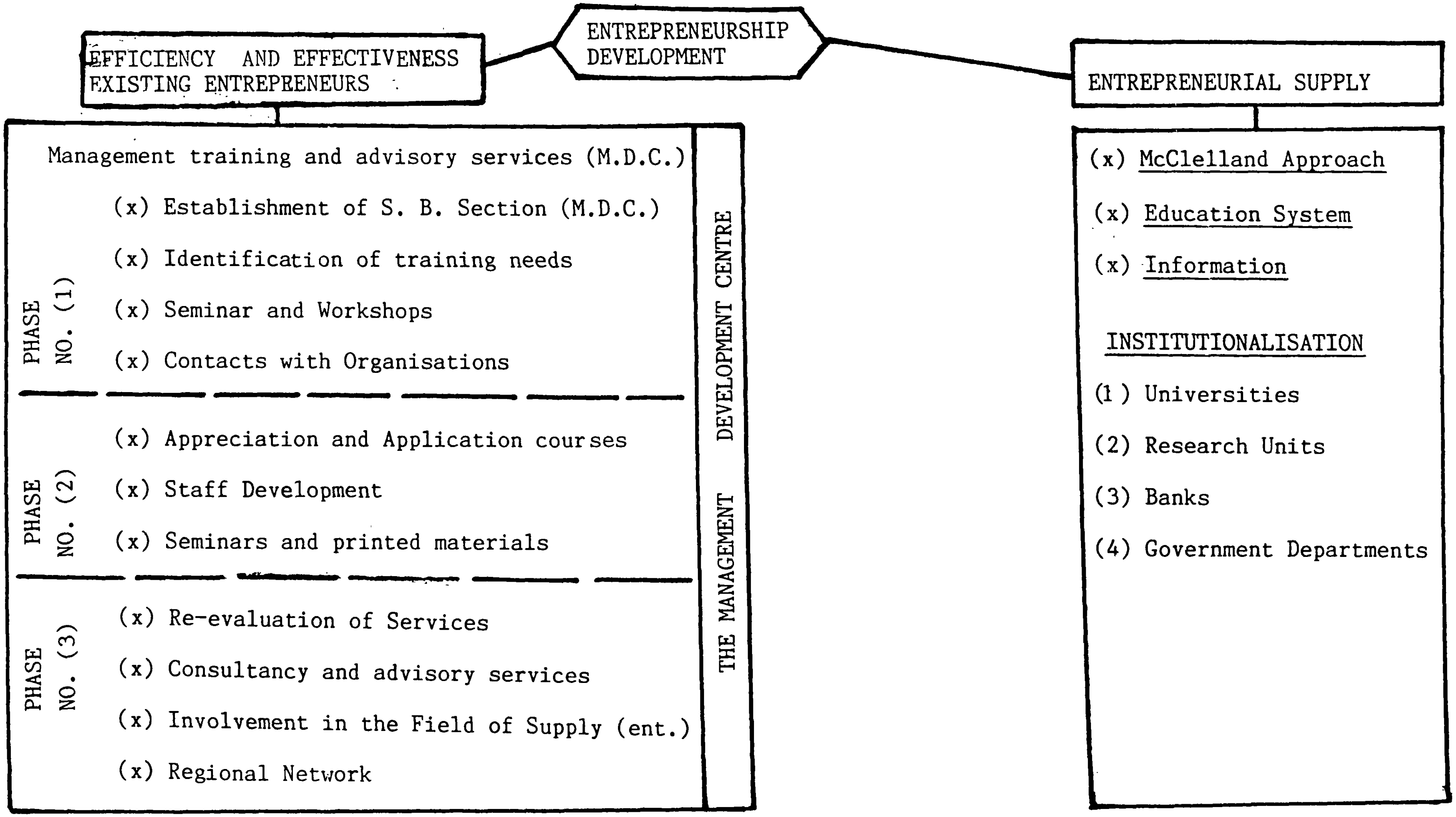
> "The particular method of management training to be used must be adapted to the subject being taught and to the preference of the participants". (I.L.O., 1968).

Taking into consideration the variety of entrepreneurs, in terms of education level, experience and management knowledge identified in this study (See Ch. 9), the proposed training programmes could be delivered by a combination of formal and informal methodology, measured into formal courses, discussion groups and circuit schemes as an informal device. Workshops, seminars and training courses will be used collectively to acquaint entrepreneurs with all aspects of the small enterprise management. Regarding instructors' development, the Small Business Section has to devise a short and a long term plan for staff development, in line with the section overall plan and activities. In this regard, the section may work in collaboration with local, regional and international organisations, and experts in this area.

The importance of having periodicals, books, brochures or pamphlets for reference and study in any institute providing research, training, information or couselling services for small business cannot be over-emphasised (S.B.A., 1984). The Small Business Section may issue regular printed information in the native language (Arabic) for wide circulation, primarily for the publicising of the Section activities.

Entrepreneurship development with the objective of increasing the birth rate and decreasing the death rate of small businesses is not an easy task. It requires an optimal combination of finance and human resources. To carry out this critical task in small enterprise development, local, regional and international support is needed in all aspects and directions.

FIGURE 12.2 MODEL FOR ENTREPRENEURSHIP DEVELOPMENT



12.5 Financial Control Practice:

This study has identified that the accounting systems maintained by small firms, regardless of stage of development is incomplete and rudimentary, and in most cases confined to technical recording of actual transactions (Ch. 10). Regarding improvement of financial control practice, the management training institutes, development financial institutes and commercial banks under Musharaka, and long-term finance, can be of immence assistance and significant help.

The Small Business Section of the M.D.C, as a means of changing the attitude of entrepreneurs, and based on the proposed research results, can establish programmes and courses in this deficient area of small business management. The contribution of the section can be directed to training and consultancy services. The proposed training courses have the following purposes:-

1. To improve accounting practice in terms of system, manpower (accountants) and the use of accounting information.

2. To introduce the concept of planning in small business management, and other modern techniques (cash-flow analysis, working capital analysis, budgetary control).

As far as the banks' role in the imporvement of accounting practice, entrepreneurship development and promotion of small industries, Pasricha (1979) argued that training programmes by development banks for entrepreneur development all over the world is especially promising. Enthoven (1979) added that:

> "Development banks could prepare standard accounting forms and procedures for enterprises, covering financial and managerial accounting ..... such efforts may be part of the pre-financing as a technical assistance project, or as part of the project financing itself".

Under the Musharaka financing instrument, the financier is involved in the management of the business. This necessitates for the recruitment of staff and qualified accountants so as to carry out the follow-up function properly. With respect to small business, the banks have to start first with the training of their own staff on small business management and assessment of the accounting services needed by small business and the sort of measures and mechanism to be adopted in following-up small business under Musharaka financing. Here comes the role of the M.D.C., Institute of Bankers, and training centres belonging to banks, in providing specialised training courses on small business to bank 'managements'. This, in turn provides justification of the adoption of the integrated model in the development of the small business sector, and shows the necessity of a co-ordination mechanism to carry out this poicy. The vital question is how to institutionalise this policy and how to build a co-ordination mechanism. To this point we direct attention now.

12.6 Small Enterprise Development Corporation:

Borrowing the experience of other countries in small enterprise development (U.S., U.K., India, Norway, Cammeroon, Australia, and Mexico), the necessity to set up a central agency responsible for the development of small industry in a developing country like the Sudan cannot be over-emphasised. P. Neck (1981) rightly stated that:-

> "Every Government needs a strong unit or division within its framework, capable of providing central guidance and control of diverse programme small enterprise developments which are either underway or being planned".

The experience of other countries in developed and developing economies shows that small enterprise development is an integrated issue, with wide differences in process, and requires collective and co-ordinative measures, in the sense that financial assistance is of no value if the entrepreneur does not know the effective way to use the capital, and productivity would not increase with all the inputs if the manager is not adequately motivated or trained. - P. Neck Model, 1977 -. This integrated approach requires the institutionalisation of services supported with a well defined co-ordination mechanism.

The proposed Development Corporation for small industries in this practical policy would be the principal body responsible for the promotion and development of small industries in the Sudan. It would also be responsible for the initiation of policy measures, and for devising measures for formulation and implementation of the programmes. The Corporation will be given the responsibility in all respects for the promotion of small industries, in co-ordination with relevant units and institutes. Due to the nature of the economic activities of the units under the umbrella of the proposed corporation as small manufacturing firms, the Ministry of Industry, where the Corporation is located, would be accountable for the working of the Corporation. The proposed body, as a device to close the small business institutional gap, would also act as a co-ordinating and monitoring organ, apart from policy formulation. Thus, the main functions of the proposed corporation would be:

1. Evolving a country-wide policy and programme for the development of small industries at various stages of development.

2. Maintaining liaison betwen different organisations at central and regional level, like financial institutions, central Ministries, Universities, management development institututes and other units and agencies connected with small enterprise development.

3. Providing assistance to Regions on formulation and implementation of small industries programme.

4. Co-ordinating the development programmes and extension services provided by specialised bodies.

5. Evaluating, supervising and monitoring the small industries programme in the country as a whole and providing sit-reps to the proposed Small Industries Board (S.I.B.).

The experience of U.S., U.K., India, South Africa, Tanzania and Canada shows that the small business development body should have enough administrative power and sanctions to be effective. Based on this experience, it is thus recommended that the head of the propsed Corporation should at least in the status of a managing-director of a public corporation, and report directly to the Minsiter of Industry. This administrative arrangement will create flexibility and minimise central Government rules and regulations. This arrangement implies the creation of this proposed body as an autonomous organ. These arrangments are not means to stop Government intervention but rather to furnish flexibility and to put the Corporation on both regional and international footing in carrying out its designed objectives. The Director of the proposed Corporation would be held accountable to the Small Industry Board and Minister of Industry. The Director, as a specialist, will act as an advisor to the Minister of Industry on small business issues. Due to lack of specialists in small business in the Ministry of Industry, the Minister in consultation with the Minister of Finance, can assign the Director's position to national staff form other bodies on permanent or secondment basis.

To establish a foundation for integrated effort on an institutional basis, the Small Industries Board is proposed as a consultative and policy formulation body, acting as a forum for participation in small enterprise development, providing advice to the Government. It is recommended that the relevant Board be chaired by a national expert in small business and macro-economic policy formulation from outside the Ministry of Industry. It is further proposed that all units directly connected to small enterprise development be represented on the Board at senior level. The suggested members are:

1. National expert to be appointed by the Minister of Industry as Chairman.

2. Director of Small Industries Corporation.

3. Director of the proposed Small Business Unit in the Central Bank.

4. Representatives of Universities.

5. National Research Council.

6. The Management Development Centre - Head of Small Business Section.

7. Managers of Commercial and Development Banks.

8. The Investment Bureau

9. The Institute of Industrial Research and Consultancy.

10. Ministry of Finance and Economic Planning.

11. Ministry of Commerce.

12. Sudanese Businessmen's Association.

13. Chamber of Commerce and Industry.

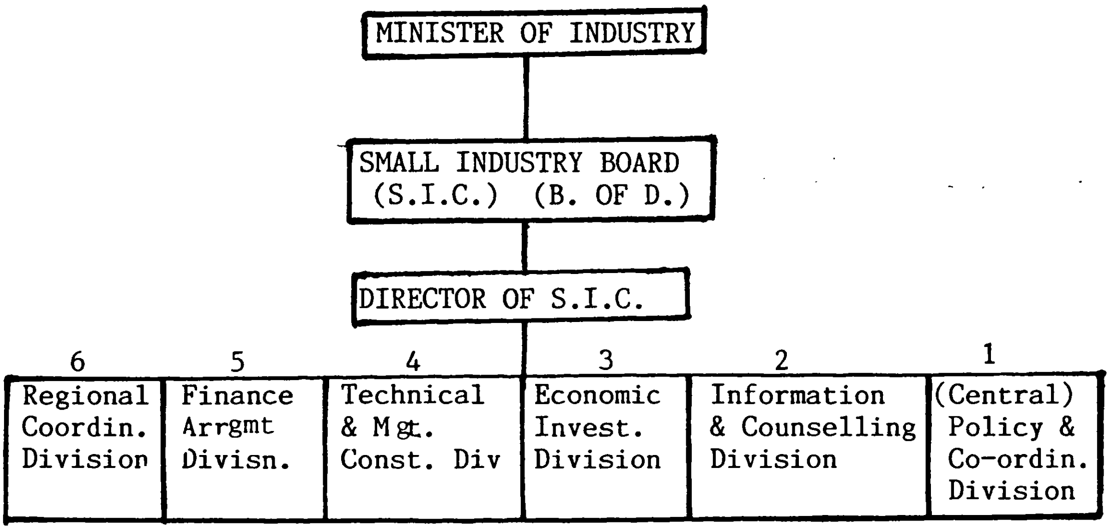
14. Ministry of Public Governments.

To create a certain degree of flexibility in the (S.I.C.) activities and operations, the Board should be given the power and authority to formulate, implement and monitor the policy. At this initial stage, the Board should meet on a quarterly basis, and be kept informed on a regular basis by the Director of the S.I.C. as an executive body.

The Board budget would be part of the S.I.C budget and a system of renumberation and encouragement has to be established in order to provide incentives.

Figure 12.3

Organisation Structure of the Proposed Small Industries Corporation (S.I.C.)



The Corporation would start operations with six specialised technical divisions as a simple set-up at the initial stage, focusing on conceptualisation of small business and, thereby, policy formulation. The main function of the policy and co-ordination Division is to implement the policies stated by the Board and to co-ordinate all policy matters. In this proposal, a separate division is suggeted, to handle and to co-ordinate regional policies and programmes, and to create a network between the S.I.C. and the Regional Governments. This division will be a seed-bed for regional agencies. The Economic Investigation Divison, in co-ordination with the economic and technological research institutes, has to act as the eyes of the of the Board and the Government, conducting technio-economic surveys, and analysing suitable areas and opportunities. The technical and Management Consultancy Division, as the name implies will be in charge of entrepreneurship development dimensions. The Financing Arrangement Divsion, in co-ordination with the Small Business Unit would be in charge of policy implementation and follow-up. At the initial stage this division would be assigned the responsibility of raising local, regional and international finance for the S.I.C. and its board operations.

As a national body, the proposed Development Corporation would have sole responsibility to ensure that the small business development takes place in a balanced manner throughout the country, and that the services meant to be given through the Corporation are evenly spread. It must observe the macro-economic policy stated in March 1986 National Economc Summit with the objective of concentrating Investment in the import-substitution industries. Given these responsibilities the proposed development organ has to co-ordinate the process of small business development. An I.L.O. Authority stated that:-

> "There is no one "best" solution to the problem of ensuring the most fruitful co-operation between public and private interests in the field of small enterprise development. Nor is there any one best solution to the very real problem of co-ordination of the activities of the different Government departments, or other public agencies who may have contributions to make, because action to promote the healthy development of small scale industries touches the life of the Community at so many different points".

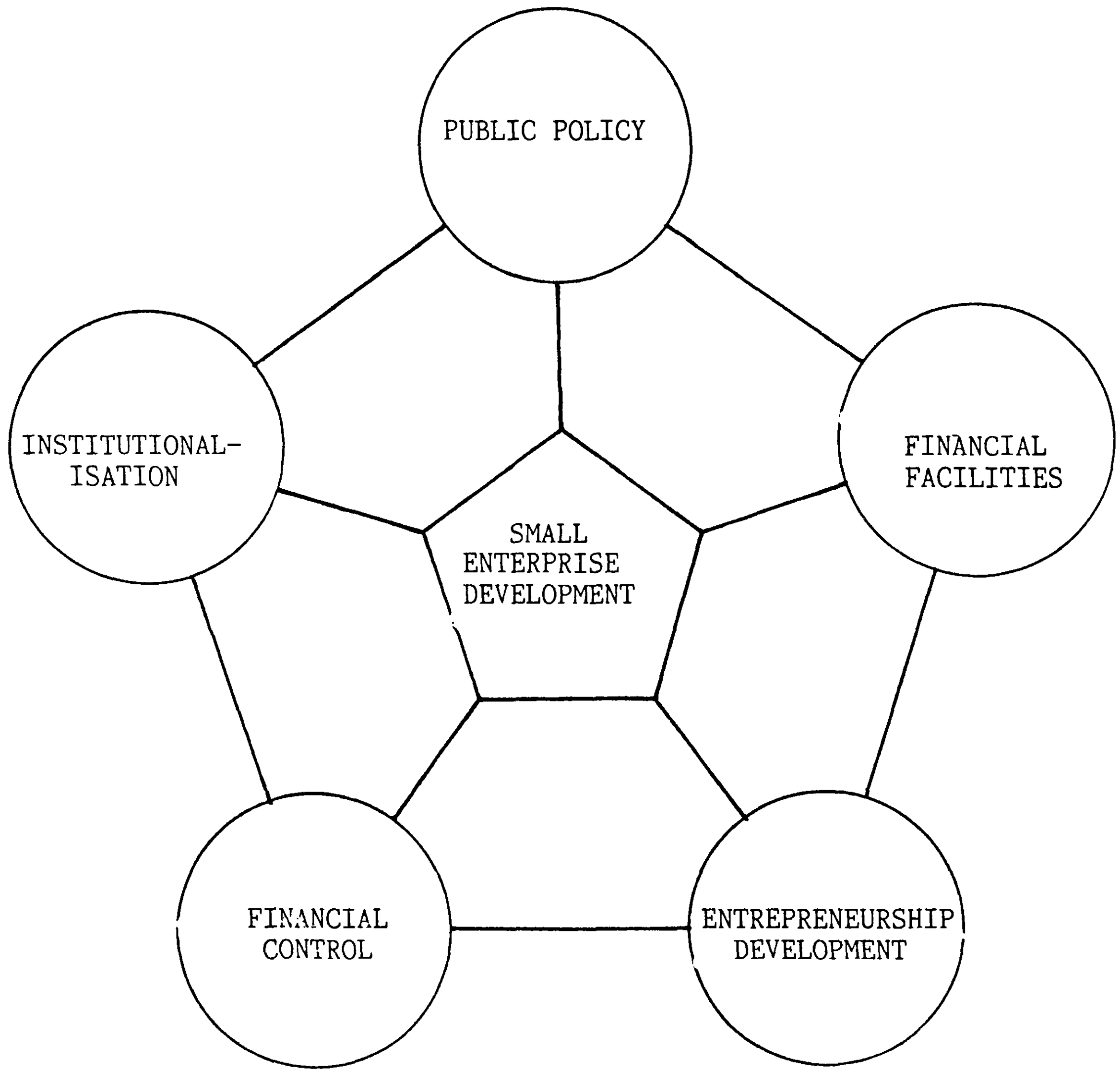
Though a structure is needed for administrative purposes, in practice the flexibility and mobility of staff for specific tasks should be assured (Sen, 1986). The quality of staff at all levels is the essence of the operation. Therefore, much care should be taken to see that the right person is chosen for the right job. Due to the lack of expertise in small business in the Sudan, it would be necessary to get some experts in the field from outside sources. This combination of national, regional and inter-national experts, would avoid mistakes at the initial stage, and provide a healthy foundation for small enterprise development across the board.

Table (12.2) shows the extension services described in this integrated policy proposal, and the organisations involved in carrying out this policy. Based on integrative approach, Figure 12.4 shows the proposed model for small enterprise development in the Sudan.

TABLE 12.2 EXTENSION SERVICES AND ORGANISATIONS INVOLVED

SERVICES / ORGANISATIONS	POLICY FORMULATION	CO-ORDIN-NATION AND FOLLOW-UP	FINANCE	ENTREPREN SUPPLY	MANAGEMENT TRAINING	TECHNICAL TRAINING	MANAGEMENT ADVISORY	INFORMATION	RESEARCH
1. Small Industries Corp.	X	X						X	
2. Small Industry Board	X	X							
3. Universities	X			X					X
4. Managemt Dev. Centre	X			X	X		X		X
5. Ind. Res. & Cons Inst.	X			X		X			X
6. Nat Research Council	X			X					X
7. Bank of Sudan/S.B.U.	X		X					X	
8. Commercial Banks	X		X				X	X	
9. DFIs	X		X				X	X	
10. Businessmen's Assoc.	X							X	
11. Ministry of Finance	X								
12. Ministry of Commerce	X								
13. Investment Bureau	X			X					
14. Vocational T. Centres						X			
15. Regional Governments	X								
16. Chamber of Commerce	X								
17. Internat. Organisations									
A. World Bank			X						
B. Arab League					X				
C. European D.F.			X						
D. UNIDO					X	X			
E. I.L.O.					X	X			

FIG 12.4 SMALL ENTERPRISE DEVELOPMENT MODEL "INTEGRATED APPROACH"



Since overall needs and small enterprise development conditions and parameters change, a continuous programme of research into economic and technological problems is called for. This research effort offers a starting point for an empirical research, with the objective of conceptualising and providing a sound framework for the development of the Small Business Sector in the Sudan.

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APPENDIX 1-A

DEMAND-SIDE
INTERVIEW - GUIDELINES

SECTION A

GENERAL INFORMATION ON ESTABLISHMENT AND ENTREPRENEUR

1. Name of Company.
2. Location of the Company. Region:
   Town:
3. Name(s) of person(s) interviewed, position held in the company and length of time in each position.
   a. Entrepreneur
   b. Finance director
   c. Accountant
   d. Other (please specify)
4. Date of commencement of the business.
5. Type of legal organization of the firm.
   a. Individual ownership
   b. Partnership
   c. Registered company
   d. Other (please specify)
   (State the number of partners or shareholders)
6. What were the main and secondary activities of the business?
   a. On commencing business
   b. At present
7. Total number of persons employed.
   a. Un-skilled (primary education or less)
   b. Skilled
   c. Managerial and professional staff
8. Total number of family members employed.
   a. Un-skilled
   b. Skilled
   c. Managerial and professional staff

9. a. Who were the founders of the company?
   b. Who took the initiative in starting the enterprise?
   c. How many persons were originally involved?
   d. How were they known to each other?
   e. How many partners/shareholders belong to the same family?
   f. Ages of the founders:
      (i) At establishment
      (ii) At present

10. a. Why did you decide to start this enterprise?
    b. Why this kind of business, rather than another?
    c. Why go into business rather than any other way of earning a living?

11. Was any technical advice or assistance received at the outset?

    Yes................ No................

    (If so, from whom?)

12. What motivated the founders to set up the business.
    a. Outlet for personal abilities
    b. Independence
    c. Status
    d. Job satisfaction
    e. Economic reward
    f. Meet family demands
    g. Other (please specify)

13. What currently are your main motivations?

14. What are your educational qualifications?
    a. None
    b. Dropped out of "KHAL"/ primary school
    c. Finished "KHAL"/primary school
    d. Secondary schools
    e. Commercial schools
    f. University/Technical colleges
    g. Any other (please specify)

15. What types of management training did you have?

16. What industrial experience do you have?
    a. Civil service - public sector
    b. Banking
    c. Trade and commercial

d. Manufacturing

e. Professional

f. Other (please specify)

17. What managerial experience did you have before establishing the business?

	Family Business	Private Sector	Public Sector
a. Chief executive			
b. Assistant manager			
c. Finance director			
d. Production manager			
e. Marketing manager			
f. Inspector (middle management)			
g. Other (please specify)			

18. How many years experience?

a. Less than 2 years

b. 2 to 4 years

c. 5 to 10 years

d. Over 10 years

19. Who are the present Directors and what, if any, are their family relationships?

20. Broadly speaking, which of the Directors are responsible for:

a. Sales

b. Finance

c. Production

d. Personnel

e. Overall planning

21. How many years has the present owner/manager worked with this firm?

22. How many years of managerial experience has this manager had in addition to his/her experience with this type of firm?

SECTION B

FINANCING

23. With how much did you commence the business?

24. What was the total amount of funds invested by the owner in this firm when it was formed?

25. Did your firm obtain credit at the beginning of the operation?

26. If reply to Question 25 is affirmative, please provide the following information:

    Source of Finance:

    a. Bank

    b. Family

    c. Trade credit

    d. Private individuals

    e. Others (please specify)

	Loan No. 1	Loan No. 2	Loan No. 3
Length of loan			
Type of loan			
Amount of loan			
Cost of money			
Collateral required (type)			
Repayment method			
Uses of Loan			
Current assets			
Fixed assets			

27. What were the most important sources of finance?

	Large Firm	Small Firm		
		Inception	Growing	Declining
a. Bank Borrowing				
(i) Bank Overdraft				
(ii) Murabha				
(iii) Musharaka				
(iv) Mudaraba				
(v) Long-term loan				
b. Other (interal and others)				
(i) Retained profit				
(ii) Savings				
(iii) Hire Purchase				
(iv) Family				
(v) Trade credit				
(vi) Other (Please specify)				

28. Why were these the most important?

	Large Firm	Small Firm		
		Inception	Growing	Declining
a. Cheapest				
b. Most easily ava-ilable				
c. Islamic				
d. Most flexible				
e. Special contacts				
f. Banking policy				
g. Collateral arrangement				
h. Other (Please specify)				

29. For each of the following sources of finance, state which you did not use from the beginning. Please specify year in which you first used them.

    a. Bank borrowing
    b. Trade Credit
    c. Long-term loans
    d. Share capital
    e. Retained profit
    f. Hire purchase
    g. Other significant sources (please specify)

<u>Bank Borrowing</u>

30. If used (bank borrowing), please specify the type and nature of the bank:

    a. Public Commercial Bank
    b. Public Development Bank
    c. Private Commercial Bank - Western
    d. Private Islamic Bank

31. Explain why you used bank borrowing?

    a. Cheap
    b. Flexible
    c. Most easily accessible
    d. Sharing of risks
    e. Other reasons (please specify)

32. Did you borrow in the term of:

    a. Murabha
    b. Musharaka
    c. Mudaraba
    d. Other and why?

33. For what specific purpose did you use the money?

    a. Purchase fixed assets
    b. Purchase raw materials
    c. Paying creditors
    d. No particular purpose

34. Do you think the cost of money:

    a. Too high
    b. Reasonable
    c. Too low

35. Do you have a relationship with the Bank Manager or Branch Manager in the area?

36. Do you feel the Bank Manager was sympathetic to small businesses?

Trade Credit

37. What are the normal credit terms generally observed in your industry for credit given by your suppliers?

38. Please specify:

    a. Period of credit received
    b. Uusual discount terms offered by you
    c. Other (Please specify)

39. A. Did you get more or less credit than usual?
    If more, why?

    a. Special relationship with supplier
    b. Shareholder
    c. Family
    d. More aggresive
    e. Faster growing

    B. If less, why?

    a. Poor relationship with supplier
    b. Inception
    c. Declining
    d. Other finance preferred

(A) Long-Term Loans (B) Financing

40. From where did you obtain (A) Long-term Loans (B) Financing?

    a. Commercial Public Banks
    b. Development Public Banks
    c. Private Islamic Commercial Banks
    d. Private Commercial Banks - WESTERN
    e. Private sources (Please specify)

41. In what form did you get (A) Long-Term loans (B) Financing?

    a. Participating - capital agreement - Musharaka
    b. Mudaraba
    c. Loan (Western system) (I.B.S.)
    d. Share capital - Family

e. Share capital - Non-family
f. Other (Please specify)

42. What sort of assets did you acquire with these loans?

a. Land
b. Premises
c. Machinery
d. Vehicles
e. Furniture and fixtures
f. Other (Please specify)

43. Did you approach the Sudanese Industrial Bank (S.I.B.) for finance?

44. If reply to question 43 is No, why not?

a. Terms not acceptable
b. Too expensive - cost of finance
c. Not in need of additional finance
d. Sufficient finance available from other sources
e. Too bureaucratic
f. Unknown to you
g. Collateral arrangements
h. Other (Please specify)

45. Did you approach the private Islamic Banks for finance?

46. If reply to question 45 is No, state why?

a. Terms not acceptable
b. Too expensive - cost of finance
c. Not in need of additional finance
d. Sufficient finance available from other sources
e. Too bureaucratic
f. Unknown to you
g. Collateral arrangements
h. Other (Please specify)
i. The terms of finance not clear to you
j. Based on ideology
k. Other (Please specify)

47. Who suggested the Bank concerned to you?

a. Partner/shareholder
b. Bankers

c. Bank or Branch Manager

d. Family

e. Friend

f. Other (Please specify)

48. What level of documentation was required by the Banks?

a. Last years' accounts

b. Cash budget

c. Cash flow analysis

d. Statement of uses to which loan is to be applied

e. The net worth of the company

f. The current valuation of the company

g. None

h. Other (Please specify)

49. How did you finance?

a. Inception

b. Expansion

c. Re-organization

50. What was the major initial source of funds available to the founder(s) at inception of the business:

a. Savings (Please specify)

b. Loan from family

c. Loan from friends

d. Loan from Bank

e. Other (Please specify)

51. Did your firm obtain funds to finance growth and expension from any source outside or beyond its retained earnings?

52. If reply to question 51 is affirmative, please provide the following information?

a. Financier

b. Length of loans

c. Total number of loans

d. Amount of loans

e. The cost of money

f. Collateral requirements

g. Payment methods

h. Uses of the loan

53. If reply to Question 51 is No, please state the reason?

    a. Internal funds are sufficient to meet growth Needs
    b. Could not obtain loan on a satisfactory basis
    c. Could not obtain equity capital
    d. Did not know about all available sources of outside funds
    e. Other reasons (Please specify)

54. Were you forced to rely on equity financing more than you would have liked?

55. If reply to question 54 was affirmative, why?

    a. Not aware of other funds being available
    b. Lack of other finance
    c. Your preference
    d. Other (Please specify)

56. Have you ever lacked external finance?

57. For what purposes were funds needed, but were not available?

    a. Current assets - working capital needs
    b. Fixed assets
    c. Promotional purposes
    d. Other needs (Please specify)

58. What do you regard as the main constraint on:

    a. Financing start-up (inception)
    b. Growth and expansion
    c. Re-organization and liquidity problems

59. How extensively did you document your case in attempting to obtain funds from the sources mentioned in question 27?

    a. Did not document the case
    b. Historical financial data
    c. Cash budget
    d. Projected P/L a/c and B/sheet
    e. The estimated cost of transaction (project)
    f. Cash flow
    g. The evaluation of the company assets
    h. Other (Please specify)

60. What minimum level of documentation would you say in your experience is usually necessary?

    a. Summary of requirements
    b. Cash budgets
    c. Projected Profit and Loss Account and Balance Sheets
    d. Other (Please specify)
    e. None

61. Overall, how important do you think documentation is in raising funds from outside sources?

    a. Very important
    b. Important
    c. Not important

62. How successful do you think you were in raising finance?

    a. Very successful
    b. Successful
    c. Not successful

63. If reply to Question 62 is 'very successful' or 'successful', please give most important reason why?

    a. Well presented case
    b. Personal qualities
    c. Good contacts
    d. Business attraction
    e. Obviously growing firm
    f. Type of fund requested
    g. Other (Please specify)

64. If 'not successful' please give most important reasons why.

    a. Credit squeeze
    b. Case not well presented
    c. No contacts
    d. Other (Please specify)

65. Did lack of success in raising external finance impede the company?

    a. Creation - start-up
    b. Survival
    c. Growth
    d. Re-organization

66. What were the reasons given by financial institutions (public and private) for refusing to extend credit for:

    a. Inception
    b. Growing
    c. Declining

67. Who was responsible for the financial aspects of the business?

    a. Entrepreneur
    b. Accountant
    c. Other (Please specify)

68. When was the first occasion a finance specialist was appointed?

69. Was the appointment full or part-time?

70. Where did you seek external financial advice?

    a. Public Banks
    b. Private Banks
    c. Private consultants
    d. Family members
    e. Government body (Please specify)
    f. Other (Please specify)

71. Which external source provided the best advice (Please specify)?

72. If you did not seek external advice on finance, please state why not?

    a. Not in need of external advice
    b. Did not trust outsiders
    c. Sufficient expertise within the company
    d. Had not heard of advice being available
    e. Reluctant to approach outside advisors
    f. Other (Please specify)

73. Did you feel overall that there was a lack of advice about financing for:

    a. Start-up
    b. Growth and expansion
    c. Liquidity solving crisis and re-organization

SECTION C

FINANCIAL CONTROL

74. A. How is the business managed? (Give brief description of experience; record of jobs, activities and previous business ventures).

    B. How many Directors are members of:

    The same Family ....

    The same Tribe ....

75. Who is in charge of the technical aspects of the business?

76. Is any change in management proposed?

77. To what extent is the management of the business influenced by the financier?

    a. Public Banks

       (i) Before Islamisation

       (ii) Under Islamisation

    b. Islamic Banks

78. Do you keep any books of account? (Give brief description)

79. If reply to Question 96 is No, why not?

80. If reply to Question 96 is affirmative, how many accountants did you have?

81. What were their qualifications

82. How many accountants are members of the same Family?

    same Tribe?

    and why?

83. On what terms were they appointed?

    a. Full-time

    b. Part-time

    c. Other (Please specify)

84. A. Who advised on the maintenance of accounting records?

    B. Who advised on the appointment of the accountants?

    a. Auditor

    b. Bank

    c. Private Consultants

    d. Friend

e. Self

f. Other (Please specify)

85. What did you think of the role of accounting and accountants in the decision-making process?

86. Did you think it useful to maintain an accounting system and why/ why not?

87. A. To what extent did you think the accountant could help in raising finance?

B. Accounting records - (give brief description)

88. How frequently did you prepare Profit and Loss Accounts?

a. Weekly

b. Monthly

c. Quarterly

d. Half-yearly

e. Annually

f. Not done

89. Which three items in the Profit and Loss Accounts did you regard as most important to control?

90. How often were the undermentioned items reported upon:

a. Sales

b. Materials - stocks

c. Overheads

d. Wages/salaries

91. Did you have a budgeting system?

92. If reply to Question 109 was affirmative, what types of budgets?

a. Cash budget

b. Production budget

c. Sales budget

d. General admin. budget

e. Other (Please specify)

93. Who advised you to maintain budgeting systems? (Please specify).

94. How often did you compare performance with budget?

95. How often were physical stock (material and finished goods) checked and reported on?

Planning P/L

96. How often did you prepare a forecast Profit and Loss Account?

Who was responsible for the preparation and maintenance of the projected Profit and Loss Account.

a. External Auditor
b. Owner/Manager
c. Accountant
d. Other (Please specify)
e. Bank Representative

97. Who advised you to maintain the projected Profit and Loss Accounts?

a. External Auditor
b. Financier
c. Self
d. Trained Accountant
e. Other (Please specify)

98. How often did you prepare a forecast of your future cash flow?

99. How often were forecasts prepared for each of the under-mentioned Profit and Loss Account items:

a. Sales
b. Materials
c. Wages/Salaries
d. Overheads

Balance Sheet - Historical

100. How often did you prepare the company Balance Sheet?

101. Who was responsible for the preparation of the Balance Sheet?

a. Financial Controller
b. Accountant
c. External auditor
d. Bank Representative
e. Owner/Manager
f. Friend
g. Other (Please specify)

102. Which three items in the Balance Sheet did you regard as most important to control?

103. How often were the under-mentioned items reported upon:

  a. Cash and Bank balances
  b. Debtors
  c. Creditors
  d. Stocks
  e. Investments

104. How often did you review your working capital?

105. How often did you review your investment in fixed assets?

106. How often did you review your gearing?

107. How often did you prepare inventories of fixed assets?

108. How often did you re-value fixed assets?

109. Did you have a system for ageing and following-up debtors?

110. Who was responsible for the follow-up of debtors?

111. Who was responsible for following-up creditors, the preparation of a creditors' inventory, and how often?

Balance Sheet Planning

112. How often did you prepare Balance Sheet forecasts?

113. Who advised you, and who was responsible?

114. How often did you prepare forecasts of future requirements of:

  a. Working capital
  b. Fixed Assets
  c. Stocks
  d. Creditors

115. Did you have strategic planning systems?

116. If the reply to Question 115 is No, state briefly why?

  a. We did not need it
  b. We were not aware of it or heard of it
  c. Other (Please specify)

117. If the reply to Question 115 was affirmative, what type of planning did you have?

  - Short-range policy
  - Long-range policy

118. How frequently did you prepare strategic policies?

119. What were the processes for strategic policies, and why?

   a. Formal
   b. Informal
   c. Other (Please specify)

120. What level of documentation was embodied in the formal planning?

121. To what extent was the degree of formality/informality influenced by:

   a. Bank involvement
   b. Nature of the industry
   c. Stage of development of the enterprise
   d. Family involvement
   e. Quality of the finance specialist

122. What in order of importance were the main objectives of the company inception, growing and declining stages:

   a. Maximum profit earned
   b. Build-up of fixed assets
   c. Create family enterprise
   d. To be independent
   e. Increase turn-over
   f. Re-organization
   g. Growth
   h. Other (Please specify)

123. How significant has the influence of financial control systems been in:

   a. Raising funds
   b. In developing the business
   c. In re-creating the company
   d. In achieving your company's objectives

SECTION D

MISCELLANEOUS

124. Over the past 5 years, have any other major developments affected the firm's progress?

125. Over the next 5 years, do you want to expand or not, and why do you think so?

126. Do you feel it is desirable or not that the firm should stay in your family? Why do you think so?

127. Do you want any changes in the circumstances in which firms like your own operate?

128. In your kind of business, what qualities do you regard as necessary for success?

129. What do you think are the outstanding problems of small businesses in the Sudan?

130. What should the Government do to help small businesses that would be most effective?

131. What should public and private banks do to promote small business efficiency and effectiveness?

132. To what extent is your business affected by the credit-squeeze system?

133. What are the most important factors that you consider have prevented your business from:

    a. Successful - start-up
    b. Growth and expansion
    c. Survival

SECONDARY DATA

- The last 5 years Profit and Loss Accounts and Balance Sheets of small firms at inception, growing and declining stages.

- The last 5 years Profit and Loss Accounts and Balance Sheets of the large private enterprises.

APPENDIX 1-B

SUPPLY-SIDE

COMMERCIAL & DEVELOPMENT BANKS
INTERVIEW GUIDELINE

A. POLICY

(1) Have you maintained a policy regarding small Business? Give description.

(2) If reply to Question 1 was affirmative, please state the criteria used by the Bank in defining a small firm?

(3) What was the logic stated by the Bank behind the selection of the criteria?

(4) What sort of policies and measures were adopted and used by the Bank to develop the small firm sector, and why?

B. FINANCING

(5) What criteria was used by the Bank in providing funds to the client.

(6) Do you have standard procedures in financing decisions?

(7) What return do you expect for certain types of risk, under different types of finance?

(8) Please rank these factors in order of importance to your Bank in a financing decision:

a. Nationality of the owners of the firm

b. The size of the firm

c. The firm's financial position

d. The firm's management

e. The growth potential of the firm's industry

f. The personal and ideological values

g. The established loan policies of the bank

h. The Bank's financial position

i. The Central Bank's regulations

j. Other factors

(9) What type of collateral arrangement is required by the Bank in providing funds to small and large enterprises under:

a. Murabha

b. Musharaka

c. Mudaraba

d. Long-term loan

e. Long-term finance

f. Overdraft facilities

(10) What could the Bank do if a client failed to pay?

(11) How does the Bank determine the cost of finance under the source of finance mentioned in Question (9)?

(12) Do you have any source of finance similar to overdraft facilities?

(13) What type of finance does the Bank consider as most profitable, and preferred by the Bank, and why?

(14) What were the preferred terms of financing used by the Bank in providing funds for small and large manufacturing firms at:

a. Inception

b. Growing stage

c. Declining stage

(15) To what extent does the credit-squeeze system controlled by the Central Bank affect your Bank policy in financing small manufacturing firms at:

a. Inception

b. Growing

c. Declining stage

(16) In your opinion is the formation and growth of small manufacturing firms in the Sudan limited and inhibited because of an insufficient supply of funds?

(17) How would you rate Banks in the Sudan on their eagerness to help finance industry?

(18) Other comments on how to improve the situation.

C. DOCUMENTATION

(19) What level of documentation is necessary for the Bank to provide finance under:

a. Murabha

b. Musharaka

c. Mudaraba

d. Long-term finance

e. Long-term loan

f. Overdraft facilities

(19B) To what extent is financing influenced by the Financial Control System maintained by small manufacturing firms and vice versa?

(20) What minimum level of documentation would you say in your experience is usually necessary?

a. Summary of requirements

b. Cash budgets

c. Projected Profit and Loss Account and Balance Sheet

d. None

e. Other (Please specify)

(21) Overall, how important do you think documentation is in providing funds to small manufacturing firms?

a. Very important

b. Important

c. Not important

D. MONITORING TECHNIQUES

(22) Do you have a follow-up section. Give brief description.

(23) How do you monitor the client financed under:

a. Murabha

b. Musharaka

c. Mudaraba

d. Musharaka transferred to Murabha

e. Long-term finance

f. Long-term loans

g. Overdraft facilities

(24) What sort of communication channel is maintained between the Bank and its' clients?

(25) Did the Bank monitor the types of financing in different ways and state the reasons?

(26) To what extent is the Bank's involvement in the management of the business under the types of finance mentioned in Question (23)?

(27) To what extent are monitoring techniques employed by the Bank under the interest-based system different from ones used under Islamisation?

(28) To what extent were the used monitoring techniques efficient and effective in securing the Bank resources?

E. FAILURE

(29) How does the Bank define failure?

(30) Would you please state the experience of the Bank in financing and monitoring failed companies. Please give examples.

(31) How does the Bank finance declining and failed small and large manufacturing firms?

(32) What were the mechanisms used by the Bank to anticipate failure?

(33) What type of finance does the Bank consider as most appropriate in financing failed and declining companies?

F. GENERAL

(34) Did your Bank provide an advisory service to small firms in addition to the provision of finance? Please state the type of advice provided.

(35) What type of training on small firm management and financing, were your Bank staff enrolled in (specify)?

SECONDARY DATA

(1) Bank's Annual Reports and Statement of Accounts.

(2) Bank's policies, regulations and Bank of Sudan's policy.

University of Bath

APPENDIX 2.

School of Management
Claverton Down
Bath BA2 7AY

Tel: (0225) 61244
Telex 449097

Professor B T Bayliss
Professor I L Mangham
Professor R E Thomas
Professor C R Tomkins

TO WHOM IT MAY CONCERN

30 September 1985

Dear Sir

The question of adequate capital to finance growth and development of small enterprises is of particular interest to the academic and professional circles in developed and developing economies. In this regard, Mr Sayed Abbas Ahmed, Ph.D. student in this University, is undertaking under our personal supervision, research studies on the financing and management control of indigenous small manufacturing firms in the Sudan.

The study is concerned with the establishment of a financial profile for small firms at various stages of development, that is how they are financed from external and internal sources. The behaviour and attitude of financial institutions towards small firms will be examined together with an investigation of the management control systems of small firms.

The study is designed to provide valuable insight into the financial and managerial problems of indigenous manufacturing firms. The findings from the study should be of value to firms such as your own and to industrial development planning in the Sudan.

We ask for your cooperation and participation in his research by providing relevant data to the researcher. We assure you that no confidential information will be revealed on any specific firm.

We would be most grateful for your help in his project. If you wish to obtain further information please do not hesitate to contact us.

Yours faithfully

C R Tomkins
Professor of Accounting and Finance

Graham H Ray
Dr G H Ray, FCA

VOLUME II

AN EMPIRICAL STUDY OF THE FINANCING OF SMALL ENTERPRISE DEVELOPMENT IN SUDAN

RESEARCH CASE STUDIES IN THE FINANCING OF SMALL ENTERPRISE DEVELOPMENT

BY

EL-SAYED ABBAS AHMED

1987

TABLE OF CONTENTS

OVERVIEW:

These small manufacturing companies were selected as case studies to further the research process, on the basis of qualitative and quantitative criteria identified in defining the small firm in the Sudan, as well as its development stages. Thus, the research case studies were classified into inception, growing and declining stages.

The research case studies were built around the research conceptual framework (see Ch. 3). The methodology adopted in collecting data was semi-structured interview, with interview guidelines built around the concerned variables. The Boswell model (1972) in researching the small firm was used as a guiding methodology in conducting interviews and in organising and presenting the data.

The interviewees were the owners and managers of the relevant small firms, accountants, family and non-family members and others connected with the company, identified through the process of investigation.

Based on stages of small enterprise classification, this volume will be classified and categorised as follows:

PART I: Inception Stage

PART II: Growing Stage

PART III: Declining Stage

The research case studies were analysed (Ch. 3) with the objective of examining empirically the analytical framework, and of developing a research hypothesis based on a combination of theory and practice.

PART I

INCEPTION STAGE

CASE STUDY I: REMAZ SWEETS FACTORY - KHARTOUM

CASE STUDY II: KOSTI NATIONAL SWEETS FACTORY

CASE STUDY NO. I

REMAZ SWEETS FACTORY

1. Corporate Background:

The initiator of Remaz Co., Mr. Sultan, had formed a wood products factory in 1976, as a joint venture project with a businessman-trader (Mr. Hana). The wood factory had failed in 1979, due to financial, marketing and technical problems. The wood factory partnership was dissolved in 1979, the year of collapse, by the withdrawal of Mr. Hana. In 1980, Mr Sultan shifted to the field of food processing, in a partnership agreement with Mr. Abdo forming Remaz Sweets Factory. The main motives behind the change to food processing industry as enumerated by the owner, could be summarised as follows:

- The machinery of sweets factory could be obtained from the local market, which protects the investors from the persistent shortage in hard-currency.
- The availability of raw-material: 75% of it in the local market.
- There was a market niche and opportunity, as a result of the collapse and failure of most similar public enterprises.
- The sweets industry, and Alpha in particular, required a simple technology and therefore only semi-skilled labour.

Remaz Sweets Factory started operation in 1980, producing and marketing Alpha in the local market with 10 employees. In December 1984, keeping pace with the development of the company, and introduction of two lines of production, the total number of people employed, including management, increased to 36. This number could be broken down into the following:

Owners and top management	2
Permanent employees	20
Semi-permanent	14

2. Entrepreneurs' Background:

2.1 Origin and Education:

The founders of Remaz Co. were born, brought up and educated in an urban area (Khartoum). They were 40 - 45 years old, which means that founders all belonged to one generation, but not to one family. The owners of Remaz were university graduates, thus, the level of education of the owners was very high, taking the 80% illiteracy in the Sudan in the 1970s. This level of education affected significantly industrial experience as well as management and financing of the business.

2.2 Industrial Experience:

After graduation from the university in 1966, Mr. Abdo joined the Ministry of Finance as Inspector, and then moved to the Custom Duties Dept., until he left the Government job in 1976. This sort of experience affected Mr. Abdo's perceptions of his business and how he regarded its financing and management control. Mr. Sultan, joined the Labour Dept., also in 1966, as an Industrial Relation Officer. In 1973, he joined a large private family business - Hilal Co. - as a deputy director. In Hilal Co., he had experience in managing a large private company, highly dominated and influenced by the family members. This experience was a main motive factor in setting up Remaz.

2.3 Motivation:

The factors which motivated the owners to set up their own business, as reported by the owners, could be summarised as follows:

. Dissatisfaction with the Government job

. Search for independence

. Tendency to capitalise on their previous experience

. Economic rewards

. Social status

2.4 Management Training

The owners had attended a number of management training programmes, both in the Sudan and abroad, being government employees. This sort of management talent would be an injection to management practice in the indigenous small private business in the Sudan. The co-founder, Mr. Abdo, had a fruitful view of the applicability and usefulness of training programmes to the management of small businesses. He stated that:

> "The management-training programmes that I had attended were tailored to meet the needs of large companies in a developed economy. As far as the size of our company is concerned, we are looking for pragmatic training courses which meet our needs.

In spite of this sophisticated attitude to management-training, Remaz had not sent any of its staff for managerial training. The founders argued that Remaz was under establishment and constrained by time and resources.

The characteristics of the owners, in terms of origin, education, industrial experience and management knowledge, had an effect on financing and how they succeeded in securing funds at inception, overcoming the infancy period, which caused collapse to most small businesses. The level of education was a great help in presenting their ease to bank managements, using their language and its subsequent logic.

3. Family Influence:

The Remaz Company was managed by its owners, who did not belong to one family. Notwithstanding this, the company was highly influenced by the families of the owners, in the sense that all key positions were manned by family members on an equal basis. In this sense, Remaz shares the characteristic of family businesses in the sudan. The underlying logic of this profile could be extracted from the statement of Mr. Sultan:

> "We have the belief and conviction that, the best way to create an opportunity for success in the business, is to establish family commitment within the business boundaries."

The involvement of the family members in the formal business management and operation could be seen through the organisation structure which was built round the family. Regarding finance, the family contribution represents 17 - 21% of short-term financing. Mr Abdo added that:

> "We are thinking seriously in creating more avenues for the families within Remaz' operations. The expansion policy could be one of the avenues to absorb family members."

4. Financing Characteristics and Financial Profile:

The seed capital of the company was derived from the owners' personal savings and resources, and the disposal of the machinery of the wood factory. The authorised capital of the company in 1980 all of which was needed, was L.S. 500,000, but the paid-up capital L.S. 260,000 representing only 52% of requirements, showing that Remaz at start-up under-capitalised. Family finance, as well as owners' resources, were the major sources of working capital finance at inception.

The seed capital was deployed in machinery and equipment. The company had not received credit or financial facilities from the bank in the early days of its life. During the first two years, the company relied heavily on owners' resources, family and trade creditors, as well as friends in financing working capital. This lack of institutional finance had been attributed by the owners to be banking policy in the Sudan favouring established and big producers.

In 1982, the owners had succeeded in securing short-term working capital finance from Faisal Islamic Bank (FIB) on Murabaha basis for 3 months. The cost of finance charged by FIB was 1.75 per month, and the amount L.S. 100,000. The bank credit facilities on Murabaha were increased in 1983/84 from 200,000 in 1982/83 to L.S. 300,000; 60% of that financing was allocated to working capital and 40% to finance purchase of two lines of production from the local market. This arrangement had been made with the consent of the bank. That was to say the short-term finance, had been allocated partly to fixed asset financing, as a result of lack of institutional long-term finance. The cost of expansion in 1983/84 was deteriorating liquidity which adversely affected the operation at the mid season.

The company received no longer term loans, whether from public or from private banks, either before or after Islamisation. The 'FIB', made a financing offer to the company under Musharaka agreement. Under the proposed offer, the bank would finance all operations of the company, under profit and loss sharing agreement. The owners rejected the bank's offer, on the ground that Musharaka financing was usually followed by the bank involvement in the management of the business. This revealed the influence of the entrepreneur's motivation in setting-up his business on the choice of finance.

Regarding the raising of funds, the owners relied on personal channel, in the sense that they capitalised on their relationship with banks and other Government units, in securing and raising funds. The owners admitted that the personal relationship, at a given volume of finance, was more important than documentation. The owners had not presented any financial documentation for finance less than L.S. 100,000.

Regarding advice on finance, Mr Abdo stated that;

> "We have not heard of any advice being available and we are experienced enough to handle Remaz's financial and managerial affairs.

The control of cash was given a high priority, under the direct control of the owners. The information on cash movements was usually derived from the bank statement and kept in the owners' heads. Big transactions in financing and allocation of finance were under the direct control, and follow-up of the owners.

The difficulties faced by the company in raising funds at inception for working capital as well as expansion finance, as enumerated by the owners, could be summarised as follows:

1. The financial institutions' behaviour towards industry financing and small firms in particular.
2. The Government regulation, and the Bank of Sudan ceiling system, which put constraints on bank financing, narrowed the chance of small firms in getting finance, compared with the giant and well-established enterprises
3. The non-availability of long-term loans for establishment and expansion finance.
4. The timing of finance. This factor had a great impact on the industry financing and performance in the Sudan, because 95 percent of industry was a gro-based industry depending on seasonal raw-materials.
5. The cost of finance was too high for a very short-term finance, which put the company under continuous pressure.
6. Instability of the banking policy in the Sudan, from interest-based system to Islamisation, which delayed all operations in 1984, and lack of information on the new system.
7. The financing was based on personal relationship and contact with the bank managements, rather than on company or project viability, and therefore financing decisions were subject to bankers' perceptions, and subjective opinions.

The problem in determining the financial profile of the company, was the non-existence of financial information, in the form of final accounts and balance sheet at the early stages of the comany's life (1980-1982). In 1980/81 the financial profile of the company, as revealed by scattered information, was under-capitalisation, liquidity, low profitability and high equity to debt ratio. The company after two years of operations (1982/83 --), had received external finance for working capital as well as fixed assets finance on short-term basis. That finance affected the liquidity profile of the company in 1983/84. The company remained under-capitalised in its early years (30%), liquidity varied, low profitability remained as also high equity to debt. Table (1.1) shows the ratios chosen to measure liquidity, profitability and financial gearing of the company.

Table 1.1. Financial Profile

1. Liquidity

	82	83	84
A. Current ratio	1.14	1.03	.98
B. W.C./T.A. Ratio	6%	1%	-

2. Profitability

	82	83	84
A. Rota	7%	6%	4%
B. Profit Margin	11%	6%	4%
C. Assets T.O.R.	.636	1	1

3. Financial Gearing

	82	83	84
Equity	244	251	264
Debt	170	186	259
Ratio	1.44	1.35	1.02

5. Organisation Set-up and Management Style:

The organisation structure of the company was very simple built round the owners, who were the ultimate decision makers - dominant coalition. The upper echelons of the set-up were manned by the family members. The experience, family relationship and age, were considered in locating family members in the set-up. The company at the top level was managed jointly by the owners, with no defined responsibilities or line of authority. This sort of joint management had an advantage of sharing ideas and decision making, but created an overlap, because of lack of defined lines of responsibility. The owners were all aware of this situation.

The second man in the echelon was the production manager, who was in charge of all technical and production functions. the production manager, who was a brother of one of the owners, was 55 years old; and the brother of the other owner worked as assistant production manager. The production manager and his assistant were delegated to take only routine and insignificant decisions. It became clear that the production manager had two superiors of equal power and equal rights as owners of the business. Moreover, he had to report to his brother who was younger than him. This point illustrates the complexities created by the involvement of the family in business operations.

The owners of the company were responsible for all operations. The accounts section, which was newly established, was under the direct control and supervision of the owners. The management style of the owners was thus consultative of family members at the top echelon, and highly authoritative at lower levels. The involvement of family in finance and business management had an influence on the degree of formality and informality and style of management. The owners admitted that the cost of family financing and psychologial support is a sacrifice of accountability. This sort of cost places a challenge before the survival of the start-up firm, and raises the question of balance between family involvement and survival and growth of the business.

Lack of objectives in the small firm, is echoed in the practice of Remaz Co. The company had no specific and defined objective for a specific period of time as either target or measurement device. The company also had no system of evaluation. The manufacturing equation had been used as evaluation criteria. In answering questions on financial assessment, the owners revealed little knowledge. The owners had not had any inside or outside advisers on these issues.

The lack of objective/s, a complete absence of an evaluation system and the limited understanding and knowledge of the owners, bring into question the use of financial control and accounting information.

6. Financial Control Characteristics and Profile:

The financial control system maintained by the company was highly monitored and built round the ability of the owners, who had no accounting knowledge or training. Mr. Abdo was capitalising on his experience in the Ministry of Finance by keeping an eye on the operation of the system, and the recruitment of the relevant staff.

The existing system, comprising five books of accounts (general expenses, work in process, bank book, cash book, and sales book) had been introduced in 1982, after two years of operation. The system was designed by the auditer, and implemented by the owners. At start-up, the recording system was confined to informal information. The rate of formality came into being as a result of expansion of business operation and banks' interactions.

The second phase of development of the company's accounting system, was the recruitment of a bookkeeper from outside the family. This bookkeeper was a commercial secondary-school leaver, with an experience of 20 years as an accountant in the public agriculture scheme. He was trained in governmental accounting, which was not based on a commercial accounting footing. In 1985, as a result of owners' recognition of the importance of accounting and qualified accountants, a university graduate was appointed. These surrogates revealed the entrepreneurs attitude. This positive attitude could be attributed to the level of education, managerial training, as well as advice of the external auditor.

There was no reporting system and the information was confined to historical accounting records. That is to say, the accounting system of Remaz Co. was very crude with incomplete records and lack of a continuous and frequent reporting system. The owners of the company were well aware of the deficiency of the accounting system. Mr Abdo stated that:

> "The financial control system stood as one of the weaknesses of the management, it is incomplete, mere historical and of no use in reflecting the actual position and in providing relevant and reliable information for decision-making. It is the area that needs more attention and consideration and this is why we had

appointed a university graduate as an accountant."

Even with that sort of understanding of the important role of accounting in decision-making, Remaz still maintained a poor and incomplete system. A vital question to be raised in this context is whether such a poor and crude financial control system is a natural phenomenon of the start-up stage, or a variable, influenced by the entrepreneur's attitude and financier involvement.

As a measurement for the crudity of the financial control system adopted by Remaz, was non-existence of any sort of budgeting system. Mr Sultan added that: "production based round the manufacturing equation is our guide". As a result of an L.S. 2 million loan granted under Murabaha, FIB introduced a planning and scheduling system for production covering the whole year (Jan 1985 - December 1985). This planning behaviour was influenced by the volume of finance and type of financing instrument, and the nature of the financier. Mr Sultan added that:

> "The annual production planning system was imposed by the financier for disbursement and settlement purposes. We followed the plan, as an imposed condition."

In spite of the attempt of the owners to improve the financial control system of the company, we could conclude that the financial control of Remaz, was less than adequate, built only round the ability, capability and understanding of entrepreneurs, and designed to provide information for external users, mainly taxation and Zaka house.

CASE STUDY NO. 2

KOSTI NATIONAL SWEETS FACTORY

1. Corporate Background:

The origin of the idea of the factory could be derived from the statement of the owner and initiator of the factory, who added a new dimension in the field of motivation and public policy.

> "In 1979/80 the Investment Act had been passed by the Ministry of Finance. The theme of the Act was to promote private sector involvement in different fields of investment, and particularly in the field of industry. Responding to this Act as well as the financial and technical support of the Sudanese Industrial Bank (SIB), the Kosti Factory came into existence."

The activity of the enterprise at start-up and at present was and is the production and distribution of tahina and Tahnia in the regional market (Kosti). The factory started operations in 1981/82 with two machines, manned by 10 semi-skilled workers. In 1983, the earnings of the enterprise had been capitalised partially by acquiring another two machines from the local market. Consequently the number of workers was doubled to 20. Due to expansion, the number of workers increased to 25 in 1984, showing 150% increase on the base year (1981).

2. Entrepreneur Background:

The initiator and owner of the factory was born and brought up in an urban area in a family business. Mr Riyah was a secondary school leaver. After schooling he joined his father's business (1963),which mainly traded in the local market, but also exported cash-crops. In the family business as an elder son, he was assigned various jobs and responsibilities in trading, agriculture and contracting. In 1975, after 12 years experience, Mr El Riah established his own business as owner and manager of an agricultural scheme for the production of sesame, groundnuts and sorghum in the Kosti area. The subject scheme was funded by the family business. The entrepreneur added that:

> "I was encouraged by my father to build my own business and image following the style of our Grandfather. The agricultural scheme was financed by the family business as a reward of 12 years of loyalty and devotion to the family and to give a chance for my brothers to take an active role in the family business. The agricultural scheme, as well as the sweets factory, could be considered as an expansion to the family business, rather than segregation and destruction of family business and wealth."

This sort of origin, industrial experience, and the beliefs of the owner in the family and business relationships had a great effect in shaping the financing profile and management approach of the owner.

As far as motivation was concerned, it suffices to state the argument of the entrepreneur:

> "To build my own image in the market and to get involved in a new field of investment as well as economic rewards, I shifted my business from trading in oil seed crops to the processing of oil seeds."

The motivation of the founder in setting-up the business could be derived from his statements on independence, image seeking, economic rewards, and diversification and expansion of family business. Moreover, the founder was encouraged by the availability of seed capital from family resources and bank loans, as well as marketability of the products.

3. <u>Family Influence</u>:

To examine the roots of family in El Riah business and the degree of influence on business management and finance, it is sufficient to start with the statement of the father of the founder, whose opinions and views had an influence on El Riah business. He stated that:

> "Our business was inherited from our grandfathers, we developed the family business into the field of exports and imports so as to keep pace with business development in the Sudan. El Riah and his brothers were entitled to lead the business to another stage of growth and development. That is why I encouraged El Riah financially and psychologically to go into the field of industry. The family business to me is a school and El Riah is a graduate, therefore his progress or failure, is a true assessment of the school's value."

With this sort of understanding, and perception the elder son of the family had been supported financially to set up his own business. The family financed the factory directly, by providing the working capital in the period 1981 - 1983 and indirectly by financing the agricultural scheme for the production of sesame which constituted 75% of the raw-materials needed.

The financing extended by the family, as well as origin had an effect on the way the business was organised and managed. The business was managed at operational and strategic levels by family members. Due to the lack of education of the family members, a foreman had been recruited in 1981 from among their relatives. Following that experience, they decided to recruit a foreman from non-relatives, and to concentrate on the operational level, so as to compensate for the absence of family members at the plant. The entrepreneur added that:

> "Due to the complexity of the situation, we found it difficult to build a demarcation line between family emotion and business requirements. This is why we changed the recruitment policy for foremen. This does not change our belief that the family involvement in business operation is the key success factor."

The family members were working in the business at formal and informal level.

4. Financing Characteristics and Financial Profile:

The initial capital of the company was derived from the owner's and family resources. The total initial cost of the factory was L.S. 85,000; 65% was financed from the founder's resources. That portion had been allotted into buildings, equipment and cars. The machinery was financed by the Sudanese Industrial Bank (SIB) on long-term basis, amounting to L.S. 30,000. The cost of long-term loan ranged from 11 - 17% P.A. The paid-up capital represented 70% of the needed funds, which means that the enterprise started operations with insufficient capital.

The working capital for the first year, 1981/82 was financed from family resources (80%) and the friends of the founder (owners of agricultural schemes) in providing raw-materials on credit terms. In 1982, the owner succeeded in securing working capital finance from the Co-operative Bank on overdraft. The overdraft ceiling approved by the bank in question was L.S. 60,000 at 17% P.A. The Kosti Factory was unique lies in the success securing finance from the Sudanese Agricultural Bank (SAB) for the agricultural scheme, indirectly solving its problem of working capital. The 'SAB' funding was L.S. 40,000. The external working capital obtained by the factory in 1982 was L.S. 100,000. This volume of finance had increased the sales of the company by 100% to L.S. 230,000. The retained profits were used and capitalised for expansion and development. Due to the abolishment and amalgamation of the Co-operative Bank with Bank of Khatoum, the factory had faced a problem in securing working capital finance (1983).

In 1983/84 the owner approached Faisal Islamic bank for working capital finance under Murabaha. Under this instrument, FIB had funded the factory with L.S. 200,000 for the purchase of sesame and other raw-materials. The cost of finance under Murabaha was 1.75% per month. Murabaha was considered by the owner as a reasonable financing instrument, compared to Musharaka:

> "We prefer to work with FIB on Murabaha rather than Musharaka because, under the latter mechanism, the bank has to be involved in all management aspects of the business."

The owner's attitude towards types and form of financing, question the correlation between the objective and motivation of the founder in setting up his business and financial behaviour.

As far as raising funds was concerned, the owner admitted that personal channels were the most important and successful ways of getting finance from banks at headquarter and regional branch level. The difficulties and obstacles in raising institutional finance as perceived and stated by the entrepreneur could be summarised as follows:

1. Unavailability of long-term finance for start-up and expansion.

2. The commercial banks policy - public and private - was not directed to the promotion and development of industry. They were trading-oriented.
3. The banking policy was not clear to businessmen; all information was acquired through personal channels. There was no avenue of communication betwen the banks and people in the industry. The Islamisation, its ways and methods employed was not clear.
4. The Central Bank regulations.
5. The bank branch managers in the region had no power to take a decision in approving finance above a certain limit, adversely affecting the timing of finance, in an industry based on seasonal agricultural raw-materials.

Concluding these points which illustrate the difficulties and problems facing the small firm in the Sudan, the owner added that:

> "In spite of all these difficulties in raising finance, it was very difficult, if not impossible, for a manufacturing firm to survive in the market without the financial support and injection of banks. Moreover, the main reason behind the collapse of most factories in the Sudan could be attributed to unavailability of finance."

The financing characteristic of the Kosti Sweets Factory could be stated as follows:

A. Establishment Cost:

65% owner and family resources

35% S.I.B. Loan

B. 1981/82 — Working Capital Finance:

. Family resources

. Owners resources

. Friends

C. 1982-1983

B +

. Overdraft facilities as direct-finance — W.C.

. Indirect finance - 'SAB' — F.A.

. Retained profits

D. 1983-1984

C +

. Murabaha finance

The control of cash was given a high priority. The owner kept the records of all bank balances and position as a sole responsible man for raising and allocation of finance. The founder capitalised on his family name and his personal contact in securing finance.

In determining the financial profile of the enterprise, the financial data for the last three years (1982-1984) which represented the economic life of the factory, has been analysed critically. Based on the selected dimensions and ratios, the Kosti factory experienced under-capitalisation and tended to maintain liquidity, profitability and high equity to debt (see Table 2.1).

Table 2.1

1. Liquidity

	1982	1983	1984
A. Current Ratio	1.79	1.37	1.40
B. W.C./T.A. Ratio	17%	10.4%	11%

2. Profitability

		1982	1983	1984
A.	Rota	17%	27%	18%
B.	Profit Margin	10%	12.1%	6.7%
C.	Assets T.O.R.	1.7	2.2	2.7
D.	Pricing Formula N.P./Sales	10%	10%	10%

3. Financial Gearing

		1982	1983	1984
Equity	000's	78	111	142
Debt	000's	59	64	66
Ratio		1.30	1.73	2.15

5. Organisation Structure and Management Style:

The life of the factory (1981 - 1985) could be broken down into two sub-periods, as far as management of the enterprise was concerned. At an early age (1981 - 1983), the business was managed and supervised by the owner at all levels. There was no organisation set-up, and the owner was the ultimate decision-maker. In 1982, the brother of the owner - Mohd Ali, had joined the business, on profit and loss sharing agreement, working under the direction of the owner, with no defined lines of authority and responsibilities. In 1984, Mohd Ali was appointed manager of the factory, with a delegation to control production, personnel and all technical and operational aspects of the factory.

The organisation set up was very simple, and the business was managed in a personalised way. There was no regular reporting system to the owner. The reporting was based on the interest of the founder and on emergencies. This sort of managerial behaviour could be attributed to the entrepreneur's industrial experience in trading and family business.

The style adopted in managing the businesses was highly authoritative and paternalistic. The owner established the justification for the adoption of this style, stating that:

> "I do believe in this sort of management style on the grounds that I possess and I have an access to all information for decision making. Moreover the factory was manned by semi-skilled and unskilled labour who were not enlightened to participate in decision making. We were in need of simple and effective system to organise our work, but this will go in line with the business development."

6. Financial Control Characteristics and Profile:

At the establishment stage of the factory, the financial control system was confined to daily records of expenses kept by the owner in a non-systematic way. The main objective of this crude recording system as perceived by the owner was to monitor cash. There were no records for assets. The financier of machinery 'SIB' kept records of machinery as a security against its long-term loans. In 1982, after six months of operations, under the advice of a friend on an informal basis, the owner started to keep records for sales, purchases, bank debtors and cash. This system was copied from other companies in the region - Ahmed Koko Factory. By mid 1982, an accountant had been appointed. The recruit was an intermediate school leaver, with an experience of 30 years in a governmental agricultural scheme. He was trained in agriculture and governmental accounting systems based on the famous three chapters. The accountant installed a system based on factory expenses and sales.

The second stage in the development of the company's accounting system was the appointement of a part-time accountant with rich experience in commercial and manufacturing enterprises. He had been the chief accountant of Kenana Sugar Company (KSC). The part-time accountant designed and implemented the existing accounting system. The existing accounting system was based on historical accounting records comprising cash and bank book, sales book, purchas book, assets records, general expenses and payroll. The recording was the responsibility of the full-time accountant. The end result of the accounting system was the financial statements.

On the importance of accounting systems and accounting information; the owner stated that:

> "We keep an accounting system and two accountants so as to provide information on taxation and Zaka people. Raising of finance depends on your name, rather than on your balance sheet."

This statement reflects the entrepreneurial attitude towards accounting and accountant's role.

The enterprise did not maintain a budgeting system. There was neith a cash budget, nor a production budget. Information on cash as well as the production was very casual. On the basis of manufacturing equation the working capital needs were determined.

The overall view of the accounting system of the Kosti Factory that was improved and developed over time from informal and very crude to a systematic historical records to satisfy external users, mainly financier and taxation and Zaka House.

PART II

GROWING STAGE

CASE STUDY III: ALADDIN PRINTING AND ADVERTISING CO. - KHARTOUM

CASE STUDY IV: ELSAIM OIL MILLS

CASE STUDY V: DENA PRINTING PRESS - KHARTOUM

CASE STUDY NO. 3

ALADDIN PRINTING AND ADVERTISING COMPANY

1. Corporate Background:

Due to the nationalisation and confiscation policy which had been implemented by the Government in 1969/70, the Sudan Publicity Co. was nationalised in 1970. Mr Osman - the founder of Aladdin P.P. - was a manager of Sudan publicity for 5 years (1965 - 1970).

In October 1970, Mr Osman formed Osman Enterprise for reasons of independence and his dislike of working in the public sector, as also for economic rewards. Osman Enterprise was based and built on the experience of the founder in the field of printing and publicity. In 1972, on invitation from the initiator, Mr. Salah joined Osman Enterprise as a partner. Consequently Aladdin Company was formed as a partnership in 1972.

The start-up capital was L.S. 8,000, which was derived mainly from the savings of Mr Osman. Mr Salah joined the company as a partner on the basis of technical skills. The capital in 1984 was L.S. 100,000 with an increase of L.S. 92,000 in ten years time.

In 1972/73 the company had faced a major problem in raising finance for working capital as well as expansion. For the sake of business survival at inception, a new partner was invited to join the business as a source of equity finance. The new comer was a rich man, very influential in social and political aspects in the Sudan. The new comer injected L.S. 4,000 into the company, raising the capital of the company by 50% to L.S. 12,000 in 1974. Mr Osman stated that:

> "Due to the financial difficulties the co. experienced at inception and the co's limited ability to finance working capital as well as machinery, Mr Hakim was invited. He was a sleeping partner as far as management of the co. was concerned, but he was entitled to one third of the company profit."

Activity: Aladdin Co., since its establishment in 1972, was operating in the field of publicity and printing. In 1984, the company had entered the field of colour printing.

Manpower: Osman Enterprise, which had been converted into Aladdin Co., started operations with 8 workers, 50 percent skilled. In 1984, the total number of people employed, including owners was 26 employees. As far as manpower was concerned, the company was suffering from the shortage of trained and skilled workers and the high turnover of skilled employees, inside and outside the country. Mr Osman stated that:

> "To cater for this problem, we launched job training programmes. In overcoming this problem, we are constrained by cost, time and the high labour turnover."

The market: In the field of printing, the company was competing with large, well established firms in the local market and the public and private sectors. The uniqueness of Aladdin Co. lies in its specialisation in the field of publicity and advertising where there was a market-niche. The company monopolised this market after the collapse and failure of the Sudan Publicity Co. (public sector).

2. Entrepreneurs' Background:

2.1 Origin and Education:

The founders, owners, and managers of the company were born in Khartoum. Mr Osman was 60 years old and Mr Salah was 40 years old. They thus belonged to different generations, and were brought up and educated in an urban area.

Mr Osman graduated from Kambani schools in 1942, whereas Mr Salah graduated from the K.T.I. in 1967. Therefore the level of education of the company's owners was high.

2.2 Industrial Experience:

In 1942, after leaving school, Mr Osman joined the British Army as a civil servant. In 1956, he had been recruited by the National Ministry of Information. Osman worked for the Government Department for 2 years. In 1958, he joined a foreign private company which specialised in advertising. In the private company, Mr Osman had been assigned various jobs and responsibilities and took the position of manager in 1965 until its nationalisation in 1970.

The co-owner Mr Salah joined the Sudan Publicity Co. in 1967 as a technical manager working closely with Mr Osman. He continued as a technical manager for the nationalised company until 1972, when he joined Aladdin Co. as co-owner.

We may conclude that the shared experience, origin led the partners to form the company as distinct from the family dimension, which dominated the profile of most small businesses and the private sector in general in the Sudan.

2.3 Motivation

The expansion and development of Osman Enterprise into formation of Aladdin Co., reflected the attitude of the initiator who forewent part of his capital recruiting a partner on technical skill basis. This could be taken as a sign of the business and growth orientation of the initiator. The main factors which motivated the initiator to change his profession from employee to business owner as enumerated by him could be summarised as follows:

1. Dissatisfaction with the Government job.
2. There was a market-niche and there was market-imperfection as a result of nationalisation.
3. He was motivated by his rich experience in the printing industry at technical and managerial level.
4. His work with experts and foreign companies, in both junior and senior jobs, had injected him with self- confidence in managing and operating a small company.

The co-owner, Mr Salah stated that:

> "I had no plan to set up a business before 1970. In 1971, after one year working in a Government unit, I was dissatisfied with the Government job and its routine regulations and procedures which was not at my level of achievement, and ambitions as a technical manager in a big enterprise."

2.4 Management Training:

The founder of the company, Mr Osman had attended a number of management training programmes and seminars, inside and outside the Sudan being an employee. Most of these programmes centred on the management of printing enterprises. On the other hand, the co-owner, Mr Salah had no sort of management training; he was a technically orientated man. This difference in background between the owners, led to the allocation of all management responsibility to Mr Osman and all technical work to his co-owner Mr Salah.

However, in spite of the belief of the owners in the importance of management education and training, the company had not had any sort of programme of staff training in supervision and management.

2.5 Overview:

Summarising the entrepreneurial profile of Aladdin company could be depicted into the following:

1. The company was based on previous experience and career.
2. Dissatisfaction with the Government job, as well as independence, were the main motives behind the company.
3. Economic-reward seekers.
4. Level of education was very high.
5. Brought up and educated in an urban area.
6. They were not family orientated.
7. Self-fulfilment seekers, lacking a plan for management succession

3. Family Influence:

In Aladdin Co. there was no family involvement at any level. This situation emerged from the origin of the owners who neither belonged to one tribe, nor to one family. Mr Osman stated that:

> "I have no idea to build a link between the company and the family; all my sons are professionals in medicine, not in this line of my business, and I have no plan for management succession."

On the other hand, Mr Salah admitted implicitly the importance of family to the management succession as a key factor for survival and growth, contradicting Mr Osman approach. The unique ownership structure of Aladdin Co. might put formidable difficulties before the owners in this regard in the future.

4. Financing Characteristics and Financial Profile:

The initial capital of the company, which was derived from the personal savings of the initiator, had been deployed in very small and traditional machines bought from the local market. The financial difficulties experienced by the company at inception had been attributed by the owners to the size of the business, bank's policy, and its negative attitude towards small firms.

Due to the good name of the newcomer in the financial market, Aladdin Co. had secured a long-term loan for 5 years with a cost of capital ranging from 10 - 14% in 1976, from the (S.I.B.). The owners reported that the personal relationship and the name of Mr Hakim played a great role in securing the subject loan for the importation of machinery. As far as working capital finance was concerned, the company was funded by the People Co-operative Bank on an overdraft basis. The availability of continuous finance provided by the Co-operative Bank put the company into growth and doubled its sales in 1979 to L.S. 380,000, and doubled them again in 1983, reaching L.S. 711,000.

After Islamisation of the banking system in February 1984, the company dealt with Murabaha in financing its working capital needs. The owners complained of the cost of finance, as well as shortening period of debt settlement under Murabaha instrument.

Creditors were the main and cheapest source of working capital, representing 74% of the total current liabilities in 1984 and amounted to 50% to total assets. On the other hand, the company kept a very small part of its resources in debtors, insisting on cash payment, and monitoring debtor-aging and follow-up system under the control of Mr Osman. The control of cash was given a high priority. The owner justified this emphasis on the grounds that the nature of industry, with production only against orders.

The main problems in raising funds, as had been perceived by the owners of the company could be summarised as follows:

1. Unavailability of long-term loans for expansion and development. The 'S.I.B.' was working with limited resources and the cost of borrowing was very high.
2. The Bank of Sudan credit policy and Government regulations was not clear to people in the industry, and there was a lack of information.
3. The banks always favoured big producers and big customers.
4. Instability of financial institutions' policy.

Having identified the source of finance of Aladdin Company, its persistent initial problems in raising funds, and its problems at growth stage, the financing characteristics of the Co. throughout its economic life (1972 - 1984) could be depicted as follows:

1.	INCEPTION	1970-1975	Source of Finance
		1. Owners resources	4. creditors
		2. Retained earnings	5. O/D
		3. Equity Finance	
2.	Growing stage	1976-1983	1 + 3 + 4 + 5
			+ long term loans
3.	" "	1983 -	1 + 2 + 4
			+ Murabaha

Financial Profile:

The financing characteristics of the company, based on internal sources of finance at inception, and an external source of finance at growing stage, implied that the company at growing stage succeeded in securing external source of finance. The company had achieved the growth rate partially by the financial support it received from the bank in 1976, pushing the capital sevenfold to L.S. 100,000 in 1978, compared to 1974. Financial statements for the last four years (1979, 1980, 1982, 1983) were examined, and verified critically using the financial ratios, so as to determine liquidity, profitability and financial gearing of the company.

1. Liquidity

RATIO	1979	1980	1982	1983
C.R.	1.30	.88	.21	.19
N.W./T.A.	6.6	-4.5	-50	-57%

This profile indicates that the company in 1979-80 was illiquid, whereas in 1982-83 it was highly illiquid. Its illiquidity profile indicates that the company relies heavily on short-term finance.

2. Profitability

RATIO	1979	1980	1982	1983
ROTA %	16.30	17	17	17

2. Financial Gearing

RATIO	1979	1980	1982	1983
EQUITY/T.D.	238	142	43	31

The higher financial gearing maintained by the company was a reflection of the external source of finance received by the company to purchase fixed assets, which had increased by 132% in 1982.

From this review, we could state that Aladdin, as a growing company, tended to maintain low liquidity, compensated by profitability, and highly geared as a result of short-finance it received mainly in the form of overdraft, Murabaha and trade credit facilities.

5. Organisation Structure and Management Style:

The organisation set-up of the company was very simple, built round the owners, in the sense that owners managed and controlled all operations. Owners stood as a dominant coalition, having all authority as well as responsibility. The founder was playing a dual role in management being both chairman and managing director, and taking sole responsibility for all aspects of management, except technical, through sharing responsibility with the co-owner.

The management style adopted by the owners was highly authoritative. The observation of the case writer and opinions of owners state that the company was managed on a direct and very close supervision basis. The owners kept an open window against the plant, supervising and directing workers from their offices; and the foreman at the platform working and directing workers under the eyes of two superiors:

> "This direct supervision was followed by an effective system of reward and punishment decided by the owners."

The uniqueness of Aladdin Co. was the absence of family influence on management.

6. Financial Control Characteristics

The financial control system was less than adequate being confined to mere historical recording, compiled at the end of the year by a part-time accountant. The accounting system was built around the ability, perception and understanding of the owners.

The recording system maintained by the company had been introduced in 1978, only after six years of incorporation. The owner stated that:

> "We had not been influenced by financiers in setting up the system. The system was designed to provide information on taxes and excise duties."

The subject system was designed by the auditor of the company in 1980, a part-time accountant had been recruited with the specific jobs of bank reconciliation on a monthly basis, preparation of final accounts, and presentation of tax statement. As far as stores and other financial items, the owner, Mr Osman in charge of keeping all records.

The company maintained an adequate system of invoicing, classified into printing, general production, handling and advertising.

The founder reported that the categorisation of invoices was used as a way to figure out cost and revenue of each product, so as to determine profitability.

There was no budgeting, nor any cash-flow statement. The production schedule and cash movement were made by the founder on an irregular basis. There was no written plan and no specified objectives, sharing the phenomenon of small business in the Sudan.

As to the use of financial information provided by the financial control system in the decision making process and raising of finance, the observation is that the owners had no knowledge on accounting and how to make use of accounting information. The final accounts were used as a documentation in raising institutional finance. The part-time account of the company added that:

> "The problems of accounting and development and effective use of the financial control system in this sort of company are embodied in the perception, financial and accounting knowledge of its owners. To introduce an adequate system, first you need to change the perception and attitude of its owners and management."

From this review, we may conclude that the financial control systems maintained by Aladdin Company lack the primary factors and was not in line with growth and development of the company. It was noticed that the system was based on provision of tax information and not with a view to securing funds from the banks.

CASE STUDY No. 4

EL SAIM OIL MILLS

1. Corporate Background

El Saim Oil Mills is owned, controlled and managed by the founder and his family. As far as the historical background of the oil mills was concerned, the departure point, would be the statement of the founder:

> "You could not speak about oil mills without mentioning the Vermicelli Factory. it marked the date of my birth in the field of industry. Its success was the main motive, as well as a psychological and financial force in support for the oil mills."

The vermicelli factory was established in 1968, initiated, managed and wholly financed by the founder. The founder enumerated the factors which pushed him into the field of industry, and the food processing industry in particular as follows:

1. Availability of internal finance.
2. There was a market niche.
3. The simplicity of the technology.

The factory was ruined in 1972, making the initial experience of the founder in the field of industry.

In 1974, Mr El Saim made another attempt, encouraged by his experience and success in vermicelli factory, approaching the Ministry of Industry, which was responsible for licencing all industrial establishment in the country in the 1970s. The licence for the oil mills was issued in 1974.

In 1974, the founder approached the S.I.B. for finance, and in 1975 they agreed to finance machinery and equipment on a long-term basis.

The oil mills started operation in 1977, and work began with 8 machine manned by 8 workers. Due to the financial support of Faisal Islamic Bank under Musharaka finance, which enhanced its operations and capacity, employment increased to 25 in 1979.

2. Entrepreneur Background:

The founder of El Saim Oil Mills was born in Guitena in 1930. He was born into a religious family, where he started his informal and formal education. He left school at 14 seeking a job so as to improve the financial position of his family. The origin, education and upbringing had a great effect on the way oil mills managed, financed and its prospect viewed.

> "I was trained in business management in how to operate and manage a grocery, a rich experience at an early age. But grocery was below my level of achievement and ambition and that is why I left the grocery to go south in 1950, seeking fortune and risking my life in the Civil War."

The level of education of Mr Elsaim was low for the 1970/80s, but could be said to be reasonable for the 1940s, having regard to the illiteracy rate in the sudan at that time. Elsaim oil mills achieved a high degree of growth under the direction of its owner, in spite of a poor education and lack of management training. The entrepreneurial success level could be attributed to the industrial experience of the owner, which compensated to some extent for his lack of formal education and management training.

The characteristics and motivation factors of the founder which might cast light on how the business was financed and managed, could be detailed as follows:

1. The founder was a wealth seeker.
2. Family conscious and family orientated.
3. Level of education was low.
4. Image and self-fulfilment seeker.
5. Debut the business between 40 and 50.

These factors had a positive and negative influence on the way the company was managed and financed.

3.1 Family Influence:

The company was highly influenced by the family, in the sense that all key jobs were manned by family members. The logic behind this practice could be extracted from the statement of the founder:

> "Industry in the sudan was built on secrecy, because it is bound by problems and risks. I had the belief that the right people for this sort of secrecy is the family members. Moreover, Islamic principle (Quran and Hyidth) encouraged the man to help and give support and priority to his family and relatives, and from this ideology I developed my concepts and ideas on involving my family in the business."

The management of the business was based on the hierarchy of the family. The founder of the company had serious and systematic intentions in converting his business from individual ownership to a private limited company. He argued that, under a private limited ownership, sons and daughters would be the main shareholders of the proposed company. The founder's objective could be extracted from his statement:

> "To protect the family and the business, and to be fair to all members of the family, I am planning to adopt the subject arranagement. Moreover, the failure of most family businesses in the Sudan, has been due to conflicts between its members, which could be avoided by appropriate company structure."

As far as management succession plan was concerned, the involvement of the son of the founder in all operations of the company and his wide responsibilities could be taken as material evidence of an effective management succession plan.

4. Financing Characteristics and Financial Profile:

The start-up capital of the oil mills was L.S. 60,000, deployed in buildings, land and local equipment. The capital was derived from owner's resources. The oil mills had not experienced family financial support, standing as a pioneer company in the El Saim family. The oil mills had obtained long-term loan facilities from the S.I.B., in 1975. The loan amounted to L.S. 100,000 with interest ranging from 10 - 14% P.A. The subject loan had been deployed in machinery, imported from India by the financier. The founder was supported by the Ministry of Industry and Commerce in securing its finance.

The company had faced a persistent problem in raising working capital at inception. These difficulties, as enumerated by the owner, could be summarised as follows:

1. The founder was new in the field of external finance, and did not know how to raise funds, or how to present a case to

the financier.

2. Banking policy and available sources of finance were not known to the owner. Moreover, the location of the mill was at Kosti, where there were only bank branches.
3. People in the market, were not aware of the needs and requirements of industry, most people were trade-orientated, that is why we faced a problem of balance between debtors and creditors.

These points indicate that the problem of small firms at inception consist of getting finance embodied in information gap, banking policy and typology and experience of entrepreneurs.

In 1977, the People's Co-operative Bank, through personal channels, agreed to finance the working capital needs of the company on an overdraft basis. The cost of finance was 12% P.A., which was considered very high by the owner, taking into consideration the pricing of products which was determined by the Government. The owner added that:

> "This was due to lack of coordination between Government units and the absence of general and Government policy for industry promotion and for small firms in particular."

In 1979, El Saim Oil Mills entered a new era in financing, i.e. Islamic finance. In 1979, the Faisal Islamic Bank provided a loan to the oil mills, under a profit and loss sharing agreement - 'Musharaka'. The FIB funded the company with L.S. 100,000 to settle the loan of the S.I.B. on the grounds that it was usury finance (Haram), and L.S. 600,000 as working capital.

Regarding the banking finance for working capital, under both

Islamic and interest-based systems, the owner added that:

> "The financial support of the People's Co-operative Bank, and FIB in particular, had a great impact on the development and growth of the business."

The FIB funding of the business on Musharaka basis, was followed by an organisation structure, an accounting system and a bank representative, attached to the company, participating in management and control of all business operations. According to the Musharaka contract, the bank representative had the right to be involved in all activities and to report all information to the Investment Section of FIB. This sort of disclosure and involvement in all aspects of business operations challenges the secrecy of the business and the image of the entrepreneur and his absolute power in making decisions. Due to these factors and conflicting issues between the entrepreneur and the bank, an entrepreneur put an end to Musharaka agreement in 1980. The founder argued that:

> "I have no objection to bank involvement in all operation decisions, but there should be a certain limit to their involvement. Moreover, the cadre of the bank were not trained in, and not acquainted with, the business environment; they acted in the business as bank employees, regardless of the image and the reputation of its owner."

Stating the views of the financier, it suffices to quote the Assistant-Director of the Investment Section (FIB), who argued that:

> "Under Murabaha finance, I could accept all arguments of Mr Elsaim, because the control mechanism used by the bank is the post-dated cheque issued by the client. But by virtue of Musharaka, the bank has to be involved at all levels controlling and developing its own resources, so as to satisfy investors."

The financing of the 'FIB' had raised the sales of the company by 100% to one million. The external finance on short-term basis was the main source, representing 96% of short-term finance. The availability of finance in a large volume and its continuity was considered by the owner as a main factor in its growth and development.

After termination of Musharaka finance, the owner returned to dealing on interest basis with the 'P.C.B.' on overdraft basis. The ceiling approved by the Central Bank for El Saim Oil Mills was L.S. 200,000. On a personal level, the finance as working capital raised by the 'P.C.B.', amounted to 2.00 million in 1980. The owner added that:

> "We were funded generously by the P.C.B., because of our personal relationship with the director at H.Q., and the branch manager at Kosti."

In 1984, and due to amalgamation of the P.C.B. with Bank of Khartoum, the company had faced a problem in securing a satisfactory and continuous working capital finance, since the decision depended on the management of the bank and on the personal relationship, rather than on business consideration, as the owner stated. In 1984, the owner approached FIB for finance under Murabaha, but his application was rejected. To explain the reason behind the rejection, it is sufficient to quote the owner:

> "I was rejected because I am not a brother Muslim member, and this supports my idea about the FIB as existing mainly to support certain people and certain groups."

The financing characteristics of El Saim Oil Mills, throughout its life could be stated as follows:

1. Inception 1975:	Owner resources		L.S. 60,000
	L.T.L. (S.I.B.)		L.S. 100,000
2. 1977-1983	. Musharaka	1979	
	. Overdraft	1980	
	. Creditors		
	. Retained profits		
3. 1984	Murabaha, R.P., Creditors		

For expansion purposes, the company had approached the S.R.D.F.C. for capital expenditure finance in 1985, under Murabaha agreement as a long-term loan. The proposal was under investigation by the S.R.D.F.C. in 1985.

The financial profile of the company was typical of growing firms. The fixed assets of the company had increased by 40% from L.S. 430,000 in 1979 to L.S. 600,000 in 1983. The company tended to maintain a negative working capital indicating the short-term nature of finance used by the company. This illiquidity symptom had been compensated by the level of profitability, which was more than the authorised (legal) profit by 50%. The company on average showed a high gearing ratio.

The financial profile, based on balance sheet data provided in the Appendices, reflected the volume of finance extended to the company from outside sources, and to what extent internal sources were deployed in nurturing the business.

1. Liquidity

	1979	1980	1981	1982	1983
CURRENT RATIO	.84	.67	.80	.80	1.20
N. WORKING CAPITAL	(82)	(100)	(90)	(50)	47

2. Profitability

	1979	1980	1981	1982	1983
ROTA	15%	11%	11.5%	14%	15.8%
PRICING FORMULA	10%	10%	10%	10%	10%
+	5%	1%	1.5%	4%	5.8%

3. Gearing

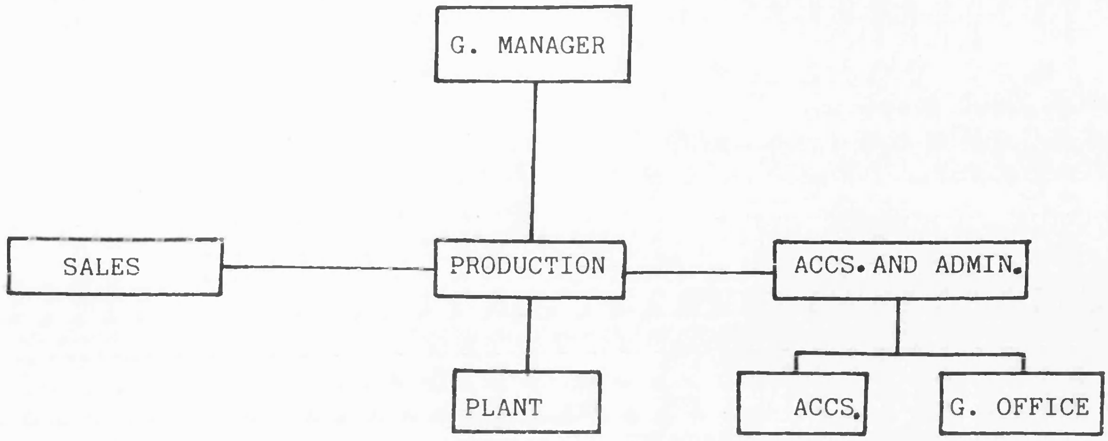
	1979	1980	1981	1982	1983
Equity	350	330	310	450	647
Debt	500	300	470	250	280
Ratio	.7	1.1	.66	1.8	2.4

5. Organisation Set-up and Management Style:

The organisation set up of the company was built round the hierarchy of the family, in the sense that it was headed by the founder, and his brothers. That set-up was influenced by the founder's views about family and management succession. That shape vested all authority and responsibility in the family members.

The organisation set-up of the company in a formal form was put into practice in 1979, as a result of the 'FIB' involvement in the business. The organisation set-up of the company was designed and implemented by the bank, with the consent of the owner, who allocated family membership in the structure.

Organisational set-up:



The organisation structure was very simple, and the founder acting as the ultimate decision-maker. The owner was responsible for purchases of raw-materials, raising of finance and allocation of finance and other strategic and operating issues brought to him from subordinates. The owner managed the business, with a centralised authority, gave some room for participation by his subordinates in the formulation of decisions, but not in decision- taking. The owner added that:

> "The formal structure of the business helped us to assign responsibility and to maintain accountability. The business and organisation was built around the concept of accountability which mentioned in Quran and Hydith"

Accounts had been assigned to the second man, which indicated the degree of importance of cash control. The experienced brothers who had a great stake in the management of the business, had been assigned responsibility for production and sales. Financing and planning - if any - were the sole responsibility of the owner.

El Saim Oil Mills was a family business, managed on formal and informal bases. The owner stated that:

> "In managing the business, we considered first what is good for the business regardless of the formality involved in the organisation set-up."

Regarding management style adopted by the owner, it suffices to quote the statement of the owner, which elaborated two schools of thought in the field of management style - participation and consultation and authoritarian style.

> "From experience, I learned that the delegation of authority and assignment of responsibility was the main factor behind the success of any business. But this delegation has a certain limit. The delineation of the limit is based on experience. In managing the oil mills, the participation in decision making was based on this formula:
>
> | | |
> |---|---|
> | a. routine and operational decisions | 80% line supervisors
20% owners |
> | b. strategic and general policy | 20% line supervisors
80% owners |
>
> delegation is restricted to family members."

These varied degrees of participation of the family members in the management of the business, was based on argument that line supervisors were made acquainted with operational issues, while the owner was well informed by external information which formulate strategic decisions. This sort of knowledge and understanding of management from an entrepreneur' with a low level of education and with no management education or training, gave a logical positive correlation between industrial experience and the way the company was managed, as well as growth and success.

In 1980, the owner moved with his family to the location of the mill (industrial area), so that both were together. The owner added that:

> "The oil mills are more than a commercial enterprise and source of income, it is my social status and family belonging. It has become one of my sons and needs to be nurtured with care and attention."

In this degree of attention to the business, El Saim Oil was unique.

6. <u>Financial Control Characteristics</u>:

The financial control system had been influenced by the entrepreneur's knowledge and attitude, and the views of the owner as to which items required oversight, as well as financial involvement in the management of the business.

The company had no system before 1979. In 1979, an accounting system was introduced by FIB, following its Musharaka financing. The system designed by the financier, was built round the Musharaka operation with the objective of providing the bank, as well as the owner, with information. The owner had abolished the system on termination of the Musharaka agreement.

In 1980, the auditor of the company was consulted formulating an accounting system. The system designed was based on historical accounting practice - accruals - with final accounts and balance sheet prepared by the auditor on an annual basis. The system was manned in 1980 by the son of the founder, who took responsibility for supervision of all accounting work. This reflected the attitude of the owner towards accounting and accountants. The son of the founder had no background in accounting and his accounting knowledge was very poor.

Under the advice of the auditor, two commercial school leavers were appointed in 1982 as accountants. From this observation, we can state that El Saim Oil Mills, in terms of techniques and accounting personnel, had kept pace with the development and growth of the company. It developed from the provision of informal and haphazard information at inception, to a formal system based on financing transactions operating with historical accounting records, and manned by trained and qualified bookkeepers (non-family).

Regarding the reporting system, the owner received a weekly report on sales, production and stores position. Cash control was given a high priority, in the sense that the owner and his son kept a daily balance of bank position and major credit transaction items. There was no costing system; the manufacturing equation was used as a device for the determination of working capital needs and the pricing of its product. Neither the bookkeepers, nor the supervisor, were trained in cost accounting.

There was equally no budgeting system, and no cash flow statemet, nor was there any formal plan for business operations. As far as stores accounting was concerned, the owner intended to assign it to his youngest son, identifying stores as a cornerstone of company success in the oil industry field. The assignment of this job to a family member may be taken as an indication of the attitude of the founder towards business management and his degree of trust in outsiders. This and other managerial functions deprived the company of any effective contribution by professionals in various fields. The potential store manager as well as the existing accounting supervisor had no experience. This showed the influence of family dimension on the quality of the financial control system of a family business.

As far as evaluation of assets of the business was concerned, a professional body "Engineering Economics House" had been consulted in 1983. An evaluation report had been issued in October 1984, showing that the value of the company was L.S. 2.5 million. That piece of information would be used by the founder as documentation in raising funds from commercial and development agencies. The owner added that:

> "This report was made to meet the Islamic financing, which was based on the value of the business as a security for finance."

The level of documentation required by the bank varies with the bank, as well as the volume of funds requested. In experiencing financing from the S.I.B., the machinery and later the factory, the bank maintained a follow-up reporting system. In raising working capital finance from conventional commercial banks, the owner reported that the higher the volume of finance applied for, the more information and documentation were needed. The minimum level of documentation required by banks under both Islamic and non-Islamic system was an annual balance sheet and profit-and-loss data. The owner added that:

> "Personal relationship with banks management is important and a short and effective channel for raising funds. Documentation is important but only after you have found an open door in the bank management office."

CASE STUDY NO. 5

DENA PRINTING PRESS

'DPP'

1. Corporate Background:

Dena Printing Press 'DPP' was established in 1938 as a joint venture project between Mr Ahmed and two of his friends. The partners bought Sarah printing press which had been owned by foreigners. The cost of machinery was L.S. 250. After two years the partners of Mr Ahmed withdrew leaving the founder to the present DPP as sole owner.

The DPP started operations in 1940, with traditional, and very primitive machinery. In 1943 the founder of the DPP had invented a simple machine based on catalogue and his mechanical experience in printing industry. In 1984, the DPP was equipped with highly advanced, modern and computerised machinery, making the growth cycle of the firm. The net book value of machinery in 1983 was L.S. 500,000. The DPP started operations in 1940 with three workers. At start-up the founder recruited members of his family. The total number of people employed in 1984 was 120.

2. Entrepreneur's Background:

The founder of the DPP was born in Khartoum (1909) and received informal and religious education at the religious school (Khalwa). He was born into a poor and non-business orientated family. The level of education of the founder was reasoanble, taking into consideration the degree of illiteracy in the Sudan in the 1920s.

The founder started his career in 1925 as an apprentice in the

Sudan Printing Press. In 1927, he was recruited by Mendial Printing Press as a foreman. The founder added that:

> "I proved to have skills and interest in the Sudan Printing Press and that is why I was offered a foreman's job in Mendial Printing Press."

The founder continued as a foreman in 'MPP' for 9 years.

The factors which motivated Mr Ahmed to debut his business at an early age (29 years), as perceived by him could be summarised by the following:

1. To improve the financial position of the family by establishing a profitable business, based on his experience and field of interest. The entrepreneur had capitalised on his technical know-how in the field of the printing industry.
2. There was a market niche, since there were only two printing houses in the Sudan and these printing houses were owned and managed by foreigners. The founder was also motivated by the emergent trend of Sudanisation and supported by the Independence National Front, as he himself claimed.

From this, we may conclude that the founder of the DPP was a technical-oriented entrepreneur and family-oriented with deep belief in the family commitment to the business. We will now examine how these characteristics affected the busines.

3. Family Influence:

The DPP was built around the family and was manned, managed and controlled at strategic and operational levels by its members.

Moreover, the business was tailored to suit the family structure and hierarchy. The founder added that:

> "I have the belief that the main factor behind the success of any business is the commitment and loyalty of its employees. To secure success, I have built a great link and connection between the DPP and the family."

The founder has put this belief into practice, ever since the establishment of his business. In 1940, he recruited his cousin as an assistant. In 1957, he sent his elder son to England for formal education and training in the field of printing industry at 'L.C.P.'. His elder son assumed responsibility as managing director of the DPP in 1962. The founder stated that:

> "The technical qualification and experience of my elder son has played a great role in formalising and modernising the DPP."

To maintain a continuous flow of qualified and trained family members in the business and to keep pace with the family hierarchy, the founder sent his son Adil to 'LCP' in 1968, and his son Gamal in 1975. Adil assumed the responsibility as a managing director in 1975 and the latter was production manager of the factory.

The family involvement in the business can be seen clearly in the organisation set-up of the business. The Board of Directors headed by the founder comprised all members of the family inside and outside the business as shareholders in a limited private company.

4. Financing Characteristics and Financial Profile:

The initial capital of the DPP was derived from the savings of the founder and family resources. In 1948, an expansion scheme had been put into practice by building a house as PP presmises in the city centre - KH. The said expansion was financed from the owner's resources and retained earnings, plus an insignificant family contribution. The company relied on the owner's resources, friend's financial support in financing operations at the inception stage of development. The company under the management of the founder (1940 - 1962) had not experienced banking facilities because of the founder's perception, views and attitude towards interest-based financing as usurious finance. The injection of the new generation in the DPP brought institutional finance as a short-term one. The son of the founder added that:

> "The overdraft facilities were usually arranged for big bids, without the notification of Mr Ahmed, who did not believe in O/D systems, from the Islamic point of view, and he had doubts about Islamic financing instruments employed by banks."

At the growing stage, creditors stood as a main short-term finance representing 83% of current liabilities in 1983. Creditors of the DPP were the suppliers of raw-materials, spare parts and machinery.

The financing policy adopted by the company was to rely on internal sources of finance, keeping a very low gearing ratio. The founder of the company who naturally had an influence on financial policy and financial structure of the company, added that:

> "The financial policy is very clear to top management, that is to rely on our own resources in developing the business."

The main arguments behind the adoption of the self-financing policy as perceived by the management of the company, could be described as follows:

1. The financial institutions' policies and behaviour, before and after nationalisation in 1970: Before nationalisation all banks were managed by foreigners and in favour of foreign companies, which were more capable of presenting their case. After nationalisation, all banking policies were laid down by the Government and were directed towards public enterprises and large firms.
2. There were no long-term loan facilities in the banking system; banks provided only overdraft facilities, which were very costly and subject to stringent conditions.

The raising of funds was the responsibility of the managing director and his assistant under the approval of the founder on non-detailed issues. The management contended that the personal relationship with managements of banks as well as the name of the entrepreneur were an effective and efficient media in raising funds from banks. The main difficulties in raising finance as stated by the DPP management could be summarised into lack of hard-currency and bankers attitude towards industry, as well as the continuous change in Government regulations and banking policy as also in bank management.

Based on the adopted financing policy, the control of cash was given high priority. Cash flow and cash control was the sole responsibility of the 'M.D.' who received daily reports from the chief accountant, and kept records for all cash transactions, as a control account. There was a debtor aging and follow-up system under the direction of the top management. The M.D. was in charge of the collection of big debts. The company had no clear cut credit facilities policies, but the management of the company was well aware of the necessity of keeping a degree of balance between debtors and creditors.

The financing characteristics of the firm could be depicted as follows:

Stage		Source of Finance
1. Start-up		1. Owner's personal savings
	(A)	2. Family resources
		3. Friends
2. Early growing		1. A + trade creditors
	(B)	2. Basic Guarantee
		3. Retained earnings
3. Growing and R.		1. B + overdraft facilities
Growth	(C)	2. Mortgage finance
		3. Hire-purchase

To identify and determine the financial profile of the company, financial statements for the last five years (1979 - 1983) were examined and verified clearly. Liquidity, profitability and financial gearing were used as a surrogate to identify the financial profile of the company (see Table 5.1).

During the period 1979 - 1981, the company tended to maintain a high degree of liquidity, keeping a positive net working capital (1.17 - 2.20), accompanied by a low profitability rate, and a very low gearing ratio. Due to a 90% increase in credit facilities received from trade creditors in 1982 and 1983, the liquidity rate decreased to less than (Cr = 1), giving an illiquidity profile, with improvement in profitability and a high gearing ratio compared to 1979 - 1981. This could be explained by the expansion policy adopted by the company based on credit-facilities provided by overseas suppliers.

5. Organisation Set-up and Management Style:

The organisational arrangement and structure of the DPP was built round the structure and hierarchy of the family. The Assistant M.D. added that:

> "Although DPP was owned, managed and controlled by the family, we handled and treated the company as a separate entity, in the sense that emotional involvement was kept to a minimum."

The DPP was managed on both formal and informal bases at family membership level (top echelon), in the sense that operations were managed and decisions were taken by the top management team, regardless of the position of the man. The degree of formality and informality was kept by top management taking into consideration the business interest. A top management team was formed as a managerial approach in managing the operations of the company. The 'TMT' headed by the M.D. comprised the key people, who were all family members.

Table 5.1 Financial Profile.

A. Liquidity

	1979	1980	1981	1982	1983
1. CURRENT RATIO	1.17	2.20	1.30.	.76	.72
2. QUICK T. RATIO	.84	1.06	.76	.31	.32
3. W.C./T.A. RATIO	5.6%	26%	7.7%	(-)9.2	(-)10.7
4. WORKING CAPITAL	31	166	59	(81)	(100)

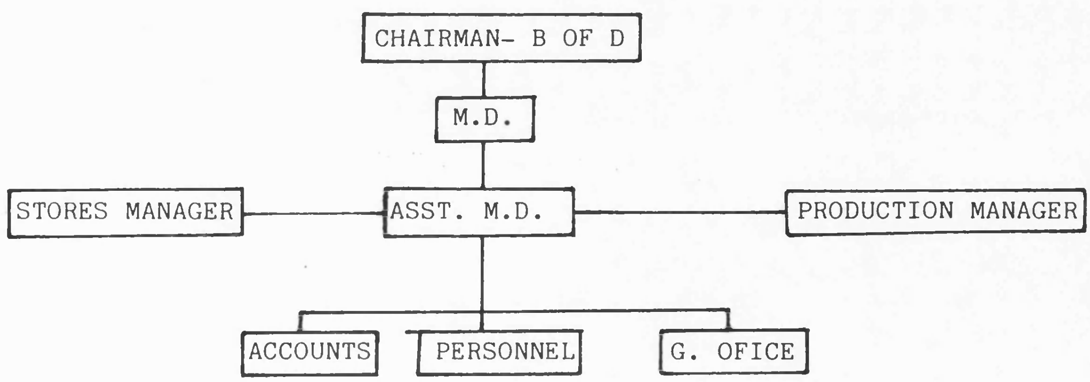
B. Profitability

	1979	1980	1981	1982	1983
1. ROTA	4.48	4.66	6.14	6.50	7.01
2. PROFIT MARGIN	4.82	4.24	3.35	2.66	2.85
3. A. TURNOVER	.93	1.10	1.83	2.46	2.46
4. R.O.C.E.	10	12	9.4	11.40	13

C. Gearing

	1979	1980	1981	1982	1983
EQ/T. DEBT Ratio	224	374	273	163	160

Figure 5.1 Organisation set-up of the company



By virtue of initiation, foundation and age, the founder of the company was the Chairman of the Board.The Chairman's position was created as a result of the conversion of the DPP from individual ownership enterprise to a limited private company. The chairman played a dual role; he kept himself in charge of all operations, and in charge of policy formation. The Managing-Director was responsible to the Chairman of the Board and acted as head of the TMT. The M.D. was in charge of job estimation, pricing, control of cash and other major issues in production and stores. Thus, the M.D. was operating, as well as managing the business. Regarding the stores control, the M.D. was responsible for maintaining a balance between production and stores. The stores management was manned by the son of the founder for more than 30 years. The Assistant M.D. argued that:

> "The printing industry is based on optimum utilisation of raw-materials and paper in particular, and this is why the stores of the DPP are under the control of the son of the founder who has been responsible for it since 1955."

Regarding the set-up of the organisation, the Management Development Centre, and the Sudanese Consultancy firm had been consulted in 1979 and 1981 respectively. The Assistant M.D. contended that the outcomes of these consultancies were unpractical. He added that:

> "We found it difficult to translate line and staff relationship terminology into practice, as stated by the consultants and as taught by management training programmes. These terminologies might pertain and be relevant to the needs of large enterprises in developed economies."

The management philosophy adopted by the management of the DPP was neither authoritative (classical) nor participative (modern school of thought): It was a combination of both. Decisions were taken at the top management level. The TMT was formed as an organ for the flow of information and decision-taking on a participative basis. To get the benefit of homogeneity the founder kept aloof from issues at the initial planning and formulation stage. The founder usually informed at execution stage.

As far management of employees was concerned, the owner added the dimension of human relations and the creation of family atmosphere, hand in hand with the authoritative approach, in managing the business. The owner reported that the crystal remark of this unique approach was the absence of a trade union in a company employing more than 100 employees. The owner added that:

> "For the family members, the equation is quite clear, that they are working for their enterprise and wealth. Non-family members are managed by maintaining a good and solid human relationship, both inside and outside the business."

The educated and trained M.D. commented that the DPP is managed as one family following the Far-East-style.

The objective of the DPP in terms of profit-making and profitability, was embodied in the estimation make-up formula, ranging from 25 to 40% of the total cost of the job. There was no specific level or objective maintained on profitability or liquidity. Thus, there was no strict criterion for the evaluation of company performance.

Based on 60 years of experience in the field of printing industry, the founder managed the business with his educated and trained sons. Although the founder had not received any formal or any sort of managerial training, he could be considered as a pillar of business growth. This questioned critically the correlation between level of education and management knoweldge of entrepreneur and growth. The founder had belief in the correlation between education and development of the business. He argued that:

> "Education, technical and non-technical, and management training, are the main factors behind the development and success of the DPP. Our key success factor is embodied in the interaction of experience and education."

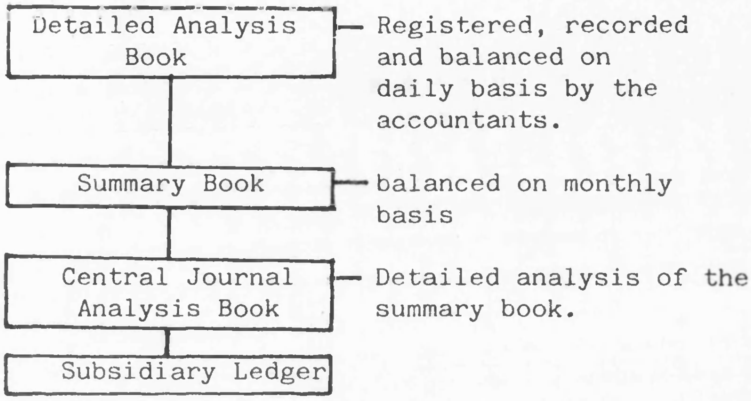
The T.M.T. members received and attended a number of management training courses in the field of management, and printing industry in particular. Technical training was based on the needs of the DPP.

6. Financial Control Characteristics

The financial control system of the DPP was developed to keep pace with expansion and development of the business, as an outcome of interaction between the experience, education, management training of the management and the consultation services provided to the company by specialist institutions. The accounting system of the DPP started as crude records kept by the founder. In 1962, a clerk was appointed to keep records. The existing accounting system was introduced in 1970 by the auditor of the company.

The accounts section was manned by the chief accountant, a cashier, a costing clerk, and a collector of debts. The chief accountant who was a university graduate, and non-family member participated actively in the development of the accounting system. He was appointed on the advice of the auditor of the company.

The accounting procedure adopted by the company was based on historical accounts comprising four books which could be classified as follows:



These accounting procedures were applied to all transactions including cash, bank, expenditure, assets, creditors etc. The chief accountant and his crew (school leavers) were in charge of all records, bank reconciliation and other accounting work. The M.D. and his assistant were highly involved in the detailed work of the accounting, keeping daily records on cash-in and cash-out. At the end of the working day, the M.D. checked the cash-book against receipts and requisition orders issued by the company.

Regarding the preparation of final accounts and balance sheets, the chief accountant work and responsibilities ended with the preparation of the trial balance. The external auditor of the company prepared on an annual basis the historical income statement and balance sheet. The outcome of the existing accounting system were daily, weekly, monthly and annual reports.

In the printing industry, which is usually based on an ordering system, time has a special connotation. To satisfy this factor, a daily report was prepared by the costing clerk showing jobs needing to be completed and the time of collection. The subject report as an information device usually made a day ahead. The relevant report was sent to the M.D. who accordingly directs production people. The production manager was usually supplied with the same report.

There was no comprehensive planning or budgeting system. In planning and controlling cash and production the company maintained a weekly cash and production budget on an informal basis. The relevant budgets were set by the TMT under the tight control of the M.D. There were no cash-flow statements or cash and funds projection.

The attitude of the management of the DPP towards accounting and accountants and their importance in managing the business was positive. The consultation made by the company for the improvement of the accounting system, the involvement of the management in all accounting work, the appointment of qualified accountants from outside the family and the continuous follow-up of the system by the M.D., could be taken as surrogates in measuring the positive attitude of DPP management towards the role of accountants. The M.D. added that:

> "It is useful in decision-making because it is based on daily and weekly reports. We are looking for a proper costing system."

The evaluation of the accounting system of the DPP reads that it was adequate, highly influenced by management skills and a very positive attitude of the founder and his crew.

7. <u>Key Success Factors of the DPP</u>:

The key success factors as perceived and stated by the founder and the top management of the company could be summarised as follows:

1. Family involvement in the business operation and management. The management succeeded in overcoming the family-business conflicts and problems by striking a good balance between business and family interest.
2. The company was managed and controlled by educated, experienced, and management knowledgeable cadre.
3. The style adopted in treating, handling and managing non-family staff, based on good man-management was a factor influencing their loyalty and devotion to the business.
4. The financial policy, based on the philosophy of self-financing relieved the company from banking regulations, from the frequent changes in financing mechanism and their consequent impact on the performance of the industry. Moroever the management had capitalised on the name and reputation of the company in seeking finance and credit facilities from local and overseas suppliers.
5. The financial control system was of great help in decision making, by providing daily accurate information. The system was closely controlled by top management.
6. As a part of the decline and collapse of most public enterprises in the 1970s, the great competitor of the DPP, the Government printing press 'GPP' had failed to maintain its market share in the economy. Moreover, the high quality

of work and services rendered by the DPP was a vital success factor.

Thus, most of the key success factors were internal, attributable to management style, financing approach and the financial control practice.

PART III

DECLINING STAGE

CASE STUDY NO. VI: THE KISSRA-MAKING FACTORY (K.M.F.)

CASE STUDY NO. VII: THE SUDANESE TOMATO-PASTE AND CANNING COMPANY

CASE STUDY NO. 6

THE KISSRA* MAKING FACTORY

'K.M.F.'

1. Corporate Background:

The Kissra-making industry was begun in 1960 by traditional businessman, by forming a traditional and simple workshop, using unskilled workers under one shed to produce food manually. A serious attempt to develop this industry in the Sudan was undertaken by an engineer from the university in 1961/62. Again, the promoter used the same type of labour, but a minor improvement in baking equipment was added.

The vital improvement to Kissra-making industry had followed the invention of a local machine to process and produce Kissra. The subject machine and this vital breakthrough was invented by the founder of the K.M.F. The invention was a watershed between manual and mechanical production of this traditional product.

The inventor commercialised his invention by establishing the K.M.F. in 1970. The inventor added that:

> "This particular invention started in 1960 as an idea and then developed into a mechanical invention, converted into a unique factory for kissra-making in developing country."

The factory started operations in 1970, using only one machine and 7 unskilled workers. Due to the financial support of the S.I.B. in financing the production of machines, the factory started mass production in 1974 after 4 years of establishment. In 1984, the

* popular Sudanese diet

factory was equipped with 3 machines employing 20 workers. In 1980, the factory ceased the production of kissra. The factors behind this decision, and the deterioration of the factory accordingly as enumerated by the founder, could be summarised as follows:

1. There was a finance gap and the cost of finance was very high.
2. The competition for raw-material in the market.
3. The changed outlook of the founder for the future.

> "My vision for the future is to produce and commercialise machines based on my invention rather than to produce kissra."

The third factor is the over-riding one, in the sense that the entrepreneur thought that he achieved his position as a result of his technical and mechanical ability.

2. Entrepreneur Background:

2.1 Origin and Education:

The owner was born in a rural area in 1927. He invented the machines, and established his business when he was 34 years old. He got all his primary and secondary school education in Khartoum (urban area). he graduated from the Faculty of Arts, University College of London in 1952. Thus, the entrepreneur of the K.M.F. was highly educated, born in a rural area, but educated and conditioned to life in an urban area.

2.2 Industrial Experience:

After graduation, the entrepreneur joined the Labour department as a Labour officer. He participated in the Sudanisation of jobs and the restructuring of national ministries and departments before and after independence. In 1957, he was appointed a Deputy Commissioner of labour. In 1960, he left the Government job, and started his own business by establishing a consultancy firm, mainly in the field of wages and industrial relations.

2.3 Motivation:

The main motives behind his move and sacrifice of the Government job which was prestigious and socially appreciated during the 1960s, and his involvement in the field of business could be derived from his statement:

> "I entered the field of business to start on my own, to build my image and reputation out of my business. Moreover, the Government job was too narrow to embody my ambitious and my innovative ability."

The innovative activity of the entrepreneur was a sort of dream and happiness culminating in a unique factory for kissra-making. The entrepreneur added that: "I started off with the usual misconception and inhibitions of a potential third-world inventor, namely: that inventing was the prerogative of specialised scientists, engineers or technicians, and that humanities graduates and lay people had no chance to contribute."

The idea and plan of the entrepreneur to debut his business, started in 1956 by his making an agreement with one of his colleagues to form a factory for the production of folklore items. The subject establishment was built, but for technical reasons, they went out of business. The KMF was formed as a natural development of the entrepreneur's interest in folklore products, which were highly rooted to his origin and as a public and common food in the Sudan at large.

From this review, as well as the conversations of the case-writer with the entrepreneur, the profile of an entrepreneur could be stated as follows:

1. Innovation-oriented.
2. Educated.
3. Knowledgeable in management.
4. Family-oriented.
5. Brought up in a rural area, but educated and lived in an urban area.

3. **Family Influence:**

The entrepreneur was supported by the family at innovation and the formation of the factory. At the innovation level, the family could be considered a main source of finance. At this level there was a gap in understanding between the financiers and the inventor, that gap forced the entrepreneur to rely on family resources.

The founder had the belief that the family involvement and commitment had a vital role to play. He stated that: "our experience in the sudan confirmed that the key success factor of most private enterprises is the involvement of a family in ownership and management." The entrepreneur had set a plan for his sons to succeed him in running and managing the business. Although the entrepreneur's venture was highly influenced by his rural roots and social values, there was no recognition of the value of extended family in the business management and its future plan.

4. The Financing Characteristics:

The financing characteristics of the kissra-making factory could be broken down into two stages:

1. The innovation stage, and
2. The commercialisation of invention

The invention stage was financed by the inventor, his family and friends. The financial institutions had no policy for financing inventions and the entrepreneur added that:

> "With my meagre financial resources, I managed to develop my machine to the stage where I actually put it to the test of full-scale production. The results were very gratifying, and I started looking round for buyers, partners, and financiers. But the response was disappointing, and I had to go it alone."

Having obtained the requisite approval from the Ministry of Industry to form the factory, the entrepreneur turned to banks for finance. In 1970/71 he received a Government grant from the Ministry of Finance of L.S. 4.5 thousand as a support and encouragement from the President for the particular invention and kissra industry. That grant was unique in the financing of a private enterprise in the Sudan.

Based on the entrepreneur's contact and personal relationship with management of the Sudanese Industrial Bank (S.I.B), and as a member of the Bank Board, he succeeded in securing long-term finance, secured by the value of machines invented and produced by him, at a cost of 11% P.A. The S.I.B. loan had pushed the factory into full-scale production phase by 1974/1975.

As far as working capital was concerned, the factory was funded by the Bank of Khartoum in 1974/75 on overdraft basis. The creditors and the family represented the main source and cheapest source of working capital. Due to financial institutions' policy towards industry, their instability after de-nationalisation, the factory had suffered a working capital finance gap.

In 1978, the entrepreneur approached Faisal Islamic Bank to finance the factory under Murabaha or Musharaka finance. The 'FIB' provided a meagre fund in 1978/79 and 1980 on Murabaha basis, L.S. 30,000 and L.S. 50,000 respectively. Other commercial banks provided insignificant loans. The entrepreneur claimed that the finance gap jeopardised the existence of the factory in the market.

As far as raising of finance was concerned, we would suffice by the statement of the entrepreneur:

> "What may be accepted as exceptional, however, is not the kind of problems I encountered, but the exceptionally fortunate position in which I found myself. The majority of the top people in Government, banks or other institutions were my contemporaries from school days or else knew me through other contacts."

Cash control and all financial matters were the sole responsibility of the entrepreneur. There were no records or cash budget. The entrepreneur was not required to present financial documentation for fund generation; all finances obtained were raised through personal channels.

5. Organisation Structure and Management Style:

The KMF is wholly managed by the entrepreneur. The entrepreneur is the ultimate decision-maker. There was no organisation set-up and management was built round the ideas and perception of the entrepreneur. The time of the entrepreneur was divided between the consultancy firm and the factory. Moroever, the time devoted to the factory was divided between the management and operation of the factory and innovative activities. Therefore, the factory lacked attention.

The management style adopted was highly authoritative, in the sense that nobody was delegated to force decisions or to participate in the decision-making. A vital question remains unanswered: why should a management consultant adopt such a management approach, in managing his business? What were the reasons for the failure of a management consultant in applying management jargon. The entrepreneur justified his approach stating that:

> "The way I managed the factory was conditioned by the nature of invention, the uniqueness of the factory and its size."

6. Financial Control Characteristics:

The financial control practice was a reflection of management practice of the entrepreneur discussed before. There was no accounts section, all records were kept and controlled by the founder. Creditors and cash were recorded in the diary of the entrepreneur, and there was no separate recording for the firm. There had been no final accounts, or financial statements since the establishment of the factory, therefore taxes were based on estimates. The entrepreneur received no advice, assistance or instruction from financiers in forming a financial control system.

This observation led to contradicting results, that a management consultant with negative attitude towards accounting, and lack of understanding of the significance of accounting in business management. This negative attitude towards accounting role by a knowledgeable entrepreneur could pertain to his nature as an innovator. This argument supported by the future vision of the entrepreneur and his plan to get out of the kissra-making business and revert to the technology business, based on his invention.

The crudity and inadequacy of the financial control system adopted, could be considered as a symptom of mismanagement.

7. General Remarks on Deterioration and Collapse of the Factory:

The main reasons behind the deterioration and collapse of the factory as identified by the case-writer could be denoted by the following:

1. Mismanagement of the factory: The mismanagement was reflected in the controlling methods and the crudity of the financial control system adopted - if any. The factory was managed solely by the entrepreneur on a part-time basis, therefore it lacked attention.
2. The founder's future intention, to develop his invention into a technology-based business for the production of machinery for kissra-making, rather than the production of kissra, affected the factory adversely. Therefore the typology of entrepreneur-innovation-oriented man was one of the reasons behind its collapse.
3. The kissra-making industry was a new field of investment,

therefore the entrepreneur faced persistent problems in raising finance.

4. The financial resources of the factory had been allocated and allotted to the innovation activities of the entrepreneur. The factory had been financed by overdraft facilities, which did not offer an opportunity for the financier to be involved.
5. The kissra industry was based on the seasonal production of wheat and sorghum. The timing of bank finance was neither adequate nor proper so as to meet the season. This was due to the routine banking system and the quality and poor knowledge of industry of the bankers.
6. The factory faced great difficulties in competing with the traders and exporters in the sorghum market.

CASE STUDY NO. 7

THE SUDANESE TOMATO-PASTE AND CANNING COMPANY "S.P.C."

1. Corporate Background:

The Sudanese Tomato-Paste and Canning Co. (S.P.C.) was formed in 1967 as a joint-venture project between the founders and a Bulkan Company. The foreign company was responsible for the technical part, and the founders were assigned the responsibility of securing finance.

According to the records the S.P.C. initially started in 1967 as a partnership of 5 people, with a capital of L.S. 50,000. In 1972, it converted into a private limited company, with a share capital of L.S. 105,000 held by two principal shareholders (Mr Rahma and Mr Musa). The other three partners were Mr Ezzidien (Minister of Industry, 1966) and the two sons of Mr Rahma. These three partners were shown as creditors to the company. The sons of Mr Rahma withdrew from the business in 1975.

From 1968 until operations started in 1971, the partners were engaged in securing finance, ordering plant and machinery, and building the factory.

The performance of the factory since it started operations in 1971 had been quite inadequate. It was below the production target of 5,600 tons of tomato paste per annum. The main reasons for the poor performance, as enumerated by the owner and manager of the business could be summarised as follows:

1. Supply of raw-material and the seasonality of the production

of tomato (3 months).

2. Scarcity of cash resources.

The Elnilean Bank consultant in charge of S.P.C. case argued that:

> "The main reason behind the poor performance and the collapse of the S.P.C. rests to an appreciable extent on inadequate management."

2. Entrepreneur's Background:

The S.P.C. was owned and managed interchangeably by Mr Rahma and Mr Musa. The other two partners, Mr Ezzidien and Mr El Sherief joined the business as sleeping partners at formation and inception stage, and at the reformation stage, respectively.

The co-founder, Mr Musa, was the initiator of the company. He took the position of company manager during the periods 1967-1973 and 1977-1984. During the period 1973-1977, the company was managed by Mr Rahma's son.

The co-founder, Mr Musa, was born in a rural area. He was 60 years old. He got an informal religious and formal primary eduction at his village. He started his career as a trader in regional cash crops. In 1950, he moved to Egypt as a result of the immigration trend of the youngest people in the Northern Region. There he worked as a trader. He added that:

> "My experience in business was enriched in Egypt. The civilisation stage of Egypt compared to Sudan in the early fifties had a great impact on my business knowledge and experience."

The co-founder, Mr Musa, re-started his business in Sudan in 1957 as a trader in cash crops. In 1967, he developed his business into processing of tomato and other fruits. The main motive factors behind the involvement of Mr Musa in industry as enumerated by him could be summarised as follows:

1. His previous experience in the field of tomato and fruits trading.
2. The position of the sleeping partner, Mr Ezzidien as a Minister of Industry in 1966.
3. The availability of institutional finance from the S.I.B.

   In this regard, Mr Musa added that:

> "The position of the partner as a Minister of Industry 1966-1969 had offered the chance for us to get access to related bodies, inside and outside the Sudan. Moreover in 1967, the Sudan was governed by our political party. All these factors helped us work with the foreign company; to get finance from the S.I.B. and to get concession and facilities from the Government bodies."

The other partner, Mr Rahma, started his business as a trader in cash crops. He joined the business at the stage of project implementation. Mr Musa added that: "The shortage of finance, the position of Mr Rahma in the market, and his reputation could be considered as a main factors behind the acceptance of Mr Rahma as a principal owner."

This review indicates that the level of education of the principal owners was very low and there was no family or tribal connection between them.

3. Family Influence:

The interviews conducted revealed that some family members who had no official status as far as S.P.C. was concerned, were acting as ghost managers. Family relationship in managerial functions exist both openly and latently. The S.I.B. official who was in charge of S.P.C. evaluation in 1983 against the bank finance, expressed the view that:

> "The introduction of family members into S.P.C. (usually at higher echelon in the hierarchy) acted as a frustrating and alienating factor, as far as other personnel and their careers were concerned."

The involvement of family into business shows the contradicting view between the principal owners. The co-founder, Mr Musa, did not believe in family involvement. He believed in a qualified professional management regardless of the family commitment, whereas the other partner had different and completely opposite opinions. Mr Musa added that:

> "I derived this conclusion from my experience of family businesses in the Sudan. Most of the family firms collapsed after the absence of the founder ... To me, this would be the fate of most family firms built round family emotions; S.P.C. was one of the victims of family involvement."

The co-founder, Mr Musa, claimed family involvement in the S.P.C. operation and management, as one of the reasons behind the company collapse. He added that: "In reforming the company, we considered this problem and this is why we appointed a professional manager for the S.P.C., under the advice and consultation of Elnilean Bank as a financier."

4. Financing Characteristics and Financial Profile:

The initial capital of the company was derived from the personal savings of owners. The capital of the company throughout its life could be summarised as follows:

Year	L.S. Amount (000's)	% Change
1967	50	
1972	105	110%
1976	114	9%
1977	350	200%
1980	548	56%
1981	548	-
1983	548	-

The S.P.C. borrowed heavily from the S.I.B. on long-term basis, mainly for financing fixed assets (machinery). The company received S.I.B. loan in 1969/70, amounting to L.S. 190,000, which was equivalent to 380% of the capital of the company. The cost of the S.I.B. loan was 8% P.A. In 1984, the S.I.B. long-term loan was settled on factoring basis by Sudanese businessman (Mr El Shaif), who consequently became a partner in the company.

The S.P.C. had borrowed heavily as well, from Elnilean Bank for working capital, in the form of overdraft facilities. The cost of Elnilean Bank finance was 11% in 1974, 14% in 1978 and 21% in 1983. The Elnilean Banks loans to the S.P.C. amounted to L.S. 1.8 million in 1982 and L.S. 2.3 million in 1984. The company had succeeded in seeking loans from the Elnilean Bank to reorganise and to rehabilitate the company, and to pay its financial obligations to the bank. The overdraft facilities provided by Elnilean Bank were deployed partially in financing fixed assets and in making money outside and beyond the S.P.C. activities.

Due to the absence of a financial policy, financial planning and optimum allocation of the company resources, the obligations and commitments of the company towards financiers and suppliers exceeded its resources:

Year	(Diff)	Debts (L.S. Mill)	Resources (L.S. Mill)
1977	.474	.970	1.444
1980	(.672)	2.050	1.378
1981	(.144)	2.050	1.906
1984	(.287)	2.500	2.213

In spite of the banks' financial support, the company had experienced persistent financial difficulties, aggravated by accumulated losses and deficits throughout its life. Elnilean Bank official in the Credit Department argued that:

> "The problem of the S.P.C. was not the availability of finance, but the management of the available resources so as to serve the S.P.C. objectives."

As far as raising of finance was concerned, the owners had capitalised on their contacts and personal relationshipos with bank managements. The principal owner Mr Musa, added that:

> "The personal channel was important and an effective way to generate funds from different institutions and banks in the Sudan."

The Elnilean Bank official had expressed his view in this regard, adding the dimension of political power. He stated that:

"The S.P.C. was a unique case. It was financed and re- financed by the bank because of its owners; Mr Ezzidien was the third man in the Government and Elnilean Bank is a public bank."

The company had shown losses for the period 1973-1981. If the accumulated losses were to be deducted from the capital of the company, the latter would be drastically reduced. Throughout the life of the company, the solvency position of the company had been so weak. The company was working with negative working capital since its inception in 1973. The current ratio for the period 1977-1981 could be read as follows:

	Current ratio	N.W.C. (000's)
1977	.73 : 1	(208)
1978	.50 : 1	-
1979	.35 : 1	-
1980	.38 : 1	(1.081)
1981	.32 : 1	(1.232)
1984	.72 : 1	(1.733)

In conclusion, we could state that the S.P.C. was heavily dependent on borrowing from banks and its creditors. Most finance was short-term, except the S.I.B. loan at inception. The company relied heavily on mortgage to overcome the liquidity and insolvency crisis. The factory assets under the control and supervision of the financier - Elnilean Bank - as security for its money. The political influence, as well as other factors were major factors behind the flow of funds into S.P.C. The financial profile is a good example of a collapsed and declining firm, maintaining illiquidity, insolvency, accelerated losses and high gearing ratio.

5. **Organisation Set-up and Management Style:**

The S.P.C. was being run on the basis of "Management by Rotation - MBR" in the sense that the co-owner Mr Musa managed the company as a general manager for the period 1967-1972; the son of the co-owner (Mr Rahma) took over in 1972. Again, the co-owner Mr Musa, held the position of the G.M. in 1977 - the start-up of collapse. This situation imposed certain restrictions and had a detrimental impact on the continuity of management.

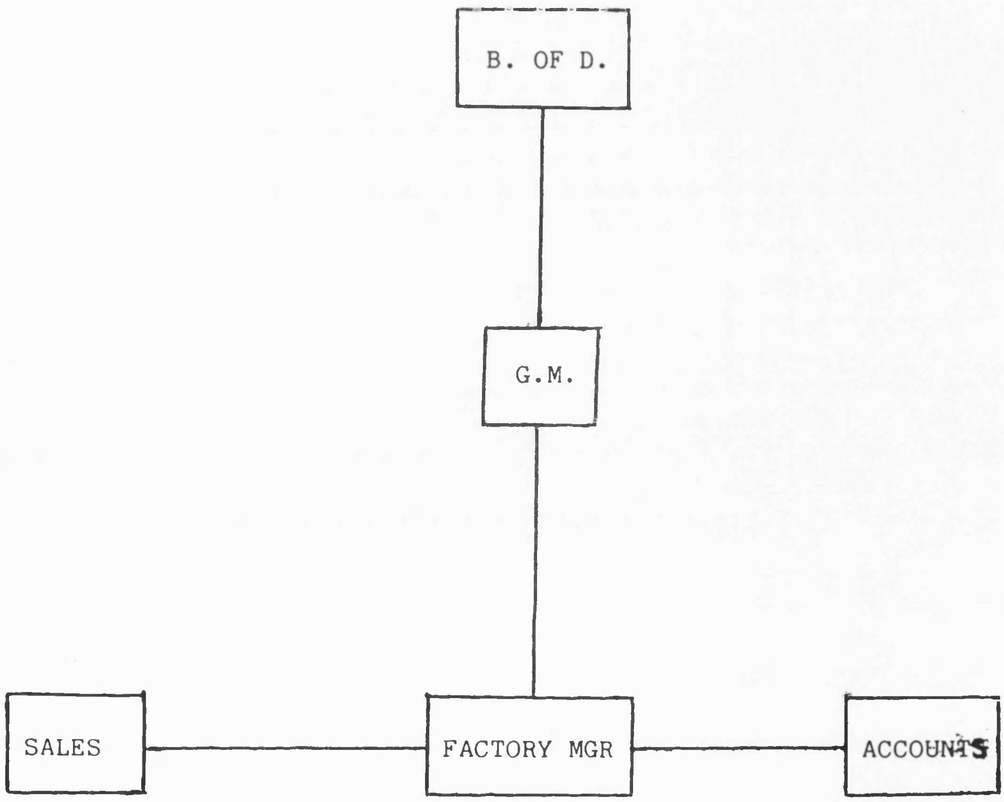
The G.M., namely the co-owner was acting in a dual capacity, i.e. as a G.M. of the S.P.C. and as integral part of the policy-making body (Board).

The factory had witnessed a series of problems of liquidity in 1977 and 1982. These crises led to the company collapse and reorganisation either voluntarily or under the financier's supervision and control. Thus the organisation set up of the company, before, during and after 1982 collapse will be discussed, so as to identify the features of the organisation and the way the company was managed.

The Board of Directors comprised the owners of the company chaired by Mr Musa. The factory was located in Khartoum North, while the G.M.'s office was located in Khartoum. The factory was under the responsibility of the factory manager. The first factory manager was a foreigner. The new manager under the financier arrangement added that:

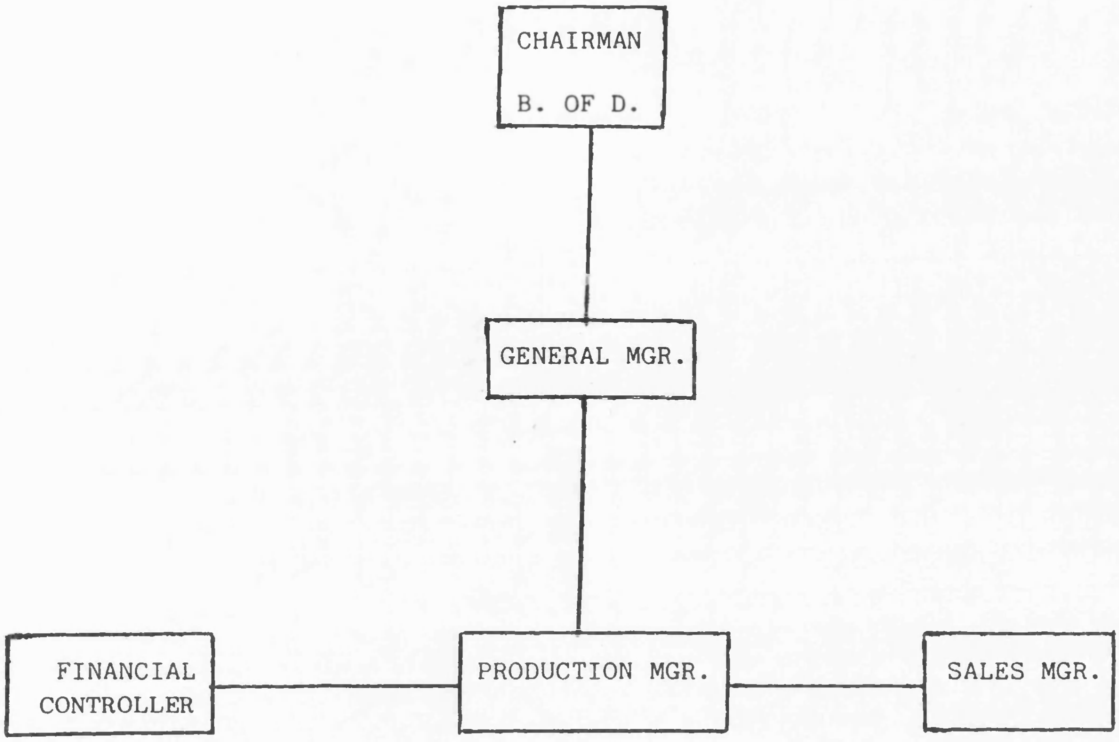
> "Under the 1977 organisation structure, the status of the personnel in charge of sales and accounts was not clear at all. Those in charge of sales and accounts were responsible to the G.Mgr., and the factory engineers were responsible to G.Mgr. through the factory manager."

Figure 7.1. Organisation Structure of the Co. (before closing the factory in 1977).



The Board of Directors had issued a memo in 1976, delegating Mr Musa to take authority and responsibility for the board. Therefore the G.Mr. (1976-1977) was playing a passive role in managing the business, according to the wording of the subject memo.

Under Elnilean Bank re-forming and refinancing programme the organisation structure had been set up as follows:



As conditions for refinancing, the bank appointed the G. Mgr. under the owners' consent. The new manager was a professional with experience in managing a public canning factory, and had been a management trainer and consultant for 5 years.

The bank involvement and influence on the set-up reflected clearly in the creation for the first time in the life of the S.P.C. the position of the financial controller. According to the bank proposal, the production and Financial controller would be selected and appointed by the owners and the bank, under the consultation and advice of the G. Mgr. Under this new arrangement, the sales would be the responsibility of the bank and the owners.

Due to the Islamisation of the financial institutions system in the Sudan, the programme of the bank had been implemented partially and remained under investigation, so as to see how it could be executed under Islamic financing mechanisms.

The style of management adopted by the management was highly authoritative, in the sense that all decisions were taken by the top management. The co-owner added that:

> "We followed an instruction style so as to avoid collapse and death; we tried to keep the face of the S.P.C., its owners and its management before the public and banks."

On the influence of financiers on decision-making, the co-owner, Mr Musa, added that: "After 1977, most of our management decisions were influenced by the financiers either directly or indirectly. We were managing the S.P.C. as an insolvent company."

The interviews with the key-man, Mr. Musa, revealed a great deal of misconception, as well as misunderstanding of the basics of proper management. This observation explained the entrepreneurial profile of the owners and its correlation to the collapse and decline of the S.P.C.

6. Financial Control Characteristics:

The accounting system adopted by the company was very crude, lacking accounting procedures, techniques, proper books and competent staff. The accounting system was confined to three books of accounts: (1) cash book; (2) creditors and (3) assets, assigned to a bookkeeper who had been trained in Government accounting for more than 25 years. The system was designed to provide final accounts and a balance sheet at the end of the financial year. The annual balance sheets were prepared by the external auditor of the company. There was no costing system, and the cost of product was based on estimates and market price. The owner quoted as "Shishina" - rough estimates.

There was no reporting system and the owner controlled all operations and used the word of mouth in communicating with subordinates. The owner's attitude and understanding of the role of accountants and accounting in managing the business, explained the crudity of the financial control system adopted by the company. In this regard, it suffices to state his view:

> "The accounts section existed mainly to provide information on taxes and excise duties. Financial information related to decisions and banks are kept in my diary."

The other symptom of crudity of the system is non-existence of budgeting or planning system. Production is based on the availability of raw materials.

Under Elnilean Bank re-financing and its subsequent reformation and re-arrangement, a financial controller was planned to be appointed. The new management of the company under this arrangement had a tendency to change the system and its profile. The involvement of the bank had a great influence on the operation of the system, in spite of the opinions, views and understanding of the owners, as to the role of accountants and accounting information in the decision-making.

APPENDIX

Appendix I

REMAZ SWEETS FACTORY

BALANCE SHEET (000's)

		DEC. 82	DEC. 83	DEC. 84
1.	FIXED ASSETS:			
	MACHINERY	83	85	100
	BUILDINGS	130	120	110
	FURNITURE	5	10	12
	M. VEHICLE	-	25	40
	OTHERS	2	5	7
	T.F.A.	220	245	269
2.	CURRENT ASSETS:			
	STOCK AT END R.M.	80	42	45
	CASH AT BANK	35	10	8
	CASH IN HAND	4	2	1
	PARTNERS C/A	15	18	20
	DEPOSITS (FIB) MUR.	60	120	180
	T.C.A.	194	192	254
*	TOTAL ASSETS	414	437	523
3.	CURRENT LIAB:			
	1. MURABAHA-'FIB'(RM)	100	150	200
	2. LETTERS OF CREDIT (FIB)	13	-	-
	3. FIB - MUR. 'MACHINE'	24	7	-
	4. CREDITORS(FAMILY)	28	25	49
	5. OUSTANDING EXPENSES	5	4	10
		170	186	259
*	WORKING CAPITAL	24	6	(5)

	DEC. 82	DEC. 83	DEC. 84
NET WORTH	244	251	264
CAPITAL	215	225	251
R.P.	-	-	-
PROFIT YEAR	29	26	23
LESS DRAWINGS	-	-	(10)
EQUITY	244	251	264

PROFIT AND LOSS DATA

	DEC. 82	DEC. 83	OCT. 84
SALES	263	440	649
OTHER REVENUE	-	-	-
STOCK AT END	80	42	45
	343	482	694
LESS DIRECT COST:			
STOCK AT FIRST	10	80	42
R. MATERIAL PURCHASE			
PAID	190	280	
IMPORTED R.M.	40	30	
FUEL AND ELECT.	12	14	
GROSS PROFIT	136	48	50
MAINTENANCE	7	-	
MAN REMUNERATION	20	18	20
DEPT.	10	4	
NET PROFIT	29	26	23

Appendix 2.

KOSTI NATIONAL SWEETS FACTORY

PROFIT AND LOSS DATA (000's)

	1982	1983	1984
SALES	230	388	562
STOCK AT THE END	20	26	10
STOCK AT BEGINNING	-	20	26
SESAME R. MATERIAL	82	148	232
SUGAR "	27	40	60
GLUCOSE "	6	10	20
SALT	5	9	10
OTHER R.M. (IMPORTED)	26	-	-
	146	227	348
LABOUR (DIRECT)	12	25	35
GROSS PROFIT	92	162	189
OTHER EXPENSES:			
POWER	11	20	42
PACKING	5	10	18
DEPRECIATION	6	8	12
EXCISE DUTIES	10	21	33
DIRECTORS (REM.)	18	20	30
OTHER EXPENSES			
NET PROFIT	23	48	37

KOSTI NATIONAL SWEETS FACTORY

BALANCE SHEET DATA (000's)

	1982	1983	1984
FIXED ASSETS:			
MACHINERY	30	34	48
BUILDINGS	35	42	49
LAND	3	3	3
CAR	14	13	12
EQUIPMENT	3	16	16
TOTAL FIXED ASSETS	85	108	128
CURRENT ASSETS:			
DEBTORS (Gen)	32	18	20
DEBTORS (Agric. Scheme)	-	23	50
STOCK AT END	20	26	10
T.C.A.	52	67	80
CURRENT LIABILITIES:			
SIB (Int on loan)	3	8	10
Family Business	26	41	47
T.C.L.	29	49	57
WORKING CAPITAL	23	18	23
TOTAL ASSETS	137	175	208
LONG T.L. (SIB)	30	15	9
NET WORTH	78	111	142
REPRESENTED BY:			
CAPITAL	55	55	55
RETAINED PROFIT	-	8	50
PROFIT OF THE YEAR	23	48	37
	78	111	142

Appendix 3.

ALADDIN PRINTING AND ADVERTISING COMPANY

BALANCE SHEET DATA (000's)

	1979	1980	1981	1982	1983
FIXED ASSETS AT C. DEP.	110	135		313	418
CURRENT ASSETS:					
STOCKS IN HAND	4	35		30	8
DIRECTORS C/A/C	9	2		-	-
DEBTORS	24	22		19	21
DEPOSITS	10	1		1	1
CASH/HAND/BANK	8	2		1	23
T.C.A.	55	62		51	53
TOTAL ASSETS	165	197		364	471
LESS C. LIABILITY:					
DIRECTORS C/A/C	-	-		23	38
TRADE CREDITORS	26	42		175	238
ACCRUALS AND PROVISION	16	16		18	40
BANK O/D	-	12		12	6
T.C. LIAB.	42	70		228	322
NET C.A.- W.C.	13	(8)		(177)	(269)
NET WORK	123	127		136	149
REPRESENTED BY:					
SHARE CAPITAL 1000x100	100	100	100	100	100
RESERVE FOR STAFF GRATUITY	3	7		13	13
PROFIT BALANCE RET.	7	10	3	2	
PROFIT OF THE YEAR	13	10		20	34
	123	127		136	149

ALADDIN PRINTING AND ADVERTISING CO.

TRADING AND PROFIT AND LOSS DATA (000's)

	1979	1980	1981	1982	1983
REVENUE LESS DEV. TAX	397	336		620	711
ADD STOCK AT END	6	35		30	8
LESS PURCHASES	(302)	(289)		(490)	(530)
LESS STOCK AT START	(11)	(4)		30	(30)
GROSS PROFIT	90	78	130	153	
LESS ADMIN AND SELF EXP:					
DIRECTORS' REMUNERATION	14	14		18	19
SALARIES AND WAGES	21	24		40	49
OTHER EXPENSES	26	13		22	47
TOTAL EXPENSES	61	51		80	115
NET PROFIT BEFORE TAX	29	27		50	38
LESS TAX PAID	(2)	(4)		(8)	(4)
PROVISION FOR B.P.T.	(14)	(13)		(22)	-
NET PROFIT AFTER TAX	13	10		20	34

Appendix 4.

EL SAIM OIL MILLS (KOSTI)

BALANCE SHEET DATA (OOO's)

	1979	1980	1981	1982	1983
FIXED ASSETS:					
MACHINERY	200	180	160	260	300
BUILDINGS AND STORES	150	140	130	120	150
TRUCKS AND CAR	42	40	36	45	60
LAND	10	10	10	10	10
EQUIPMENT	30	35	40	35	50
OTHER F. ASSETS	0	24	24	30	30
TOTAL FIXED ASSETS	432	432	400	500	600
CURRENT ASSETS:					
STOCKS IN HAND	377	188	348	145	200
DEBTORS	40	7	25	42	40
CASH/HAND/BANK	2	4	5	10	72
OTHERS	0	1	2	3	15
TOTAL CURERENT ASSETS	418	200	380	200	327
TOTAL ASSETS	850	630	780	700	927
CURRENT LIABILITIES:					
FAISAL ISLAMIC BANK	480	0	0	0	0
PEOPLE CO. B. BANK	)	295	388	180	200
CREDITORS	20	5	82	70	60
UNITY - BANK (END)	0	0	0	0	20
TOTAL CURRENT LIABILITIES	500	300	470	250	280
WORKING CAPITAL	(82)	(100)	(90)	(5)	47
LONG-TERM LIAB. (SIB)	0	0	0	0	0
NET WORTH	350	330	310	450	647
REPRESENTED BY:					
CAPITAL (1st PERIOD)	200	200	200	300	400
RETAINED EARNING	20	60	20	50	100
PROFIT - YEAR	130	70	90	100	147
	350	330	310	450	647

ELSAIM OIL MILLS (KOSTI)

PROFIT AND LOSS DATA

	1979	1980	1981	1982	1983
SALES	1080	700	900	1000	1225
Change in Sales		36%	29%	11%	22.5%
STOCK AT END	377	188	348	145	200
	1457	888	1248	1145	1425
RAW MATERIAL (60-71)					
DEP. (30)					
PAYROLL					
SALARIES/REM. FOR F. MEMBERS (33 - 0 42)					
PROFIT B.I. & TAX	130	70	90	100	147

Appendix 5.

DENA PRINTING PRESS

BALANCE SHEET DATA

	1979	1980	1981	1982	1983
NET FIXED ASSETS	355	340	501	564	500
INVESTMENTS	–	–	10	60	170
T.F.A. & INV.	355	340	511	624	670
CURRENT ASSETS:					
STOCKS – S. PARTS	–	5	25	29	40
STOCKS – PAPER & INK	57	154	81	118	101
DEBTORS	5	27	58	56	18
DEPOSITS	1	5	–	–	–
BANKS – S. COM. BANK	–	67	41	19	–
OTHER	131	38	46	26	90
CASH IN HAND	9	8	3	3	8
TOTAL C. ASSETS	203	304	254	251	257
TOTAL ASSETS	558	644	765	875	927
CURRENT LIAB:					
CREDITORS	170	135	157	307	297
O/ST. EXPENSES	2	3	2	3	4
ACCRUED/CREDITORS	–	–	36	22	56
TOTAL C.L.	172	138	195	332	357
WORKING CAPITAL	31	166	59	(81)	(100)
NET WORTH	386	506	570	543	570
REPRESENTED BY:					
AUTHORISED CAPITAL					
500 x 1000	500	500	500	500	500
PAID UP CAPITAL	250	250		500	500
RESERVE	128	250	56	20	55
LESS B.P. TAX PAID	(17)	(24)	(33)	(34)	(50)
PROFIT OF THE YEAR	25	30	47	57	65
	386	506	570	543	570

DENA PRINTING PRESS
MANUFACTURING, TRADING AND PROFIT
AND LOSS DATA
(000's)

	1979	1980	1981	1982	1983
REVENUE	515	705	1,399	2,130	2,274
OTHER INCOME	2	3	4	10	8
TOTAL REVENUE	517	708	1,403	2,140	2,282
EXPENDITURE					
RAW MATERIALS	251	407	983	1,595	1,613
SALARIES, WAGES AND B + B	99	114	175	219	279
OTHERS					
GROSS PROFIT	77	98	132	186	239
SELLING AND ADMIN EXP					
B. OF DIR. REMUNERATION	-	10	10	15	25
OTHER O/H EXPENSES	52	58	75	114	149
NET PROFIT	25	30	47	57	65

THE KISSRA MAKING FACTORY
BALANCE SHEET DATA

"Compiled and prepared by economic and engineering consultancy firm, approved by the certified accountant and external auditor of FIB which was involved in the financing of the company's reformation and reorganisation"

	1979	1980	1981
FIXED ASSETS			
MACHINERY	85	71	62
BUILDING (EVALUATION)	120	140	150
LAND (M. PRICE)	10	40	40
	215	250	252
CURRENT ASSETS:			
(STOCK) RAW MATERIALS - SORGHUM	15	25	30
DEBTORS	-	-	-
CASH/HAND/BANK (UNDEFINED)	-	-	-
TOTAL ASSETS	230	275	282
CURRENT LIABILITY:			
CREDITORS			
FIB	15	35	30
BANK OF KHARTOUM	4	10	20
S.I.B.	6	6	-
WORKING CAPITAL	(10)	(25)	(20)
L.T. LIAB.	-	-	
CAPITAL	200	200	200
ACC. P PROFIT/LOSS	5	24	32
EQUITY	205	221	232
PROFIT YEAR	5	19	8
ROTA	2%	7%	

Appendix 7.

SUDANESE TOMATO PASTE AND CANNING FACTORY
BALANCE SHEET DATA

	1977	1980	1981	1984
FIXED ASSETS				
MACHINERY AND EQUIPMENT	587		805	
BUILDINGS AND CIVIL WORKS	166		257	
LAND	100	268		
MOTOR VEHICLES	233	3		
TOTAL FIXED ASSETS	877	705	1.333	1.333
CURRENT ASSETS				
STOCKS OF R.M.	350	83	83	-
STOCKS OF F. GOODS	87	113	113	-
GOODS IN TRANSIT	101	-	-	-
DEBTORS	23	110	55	55
PRE-PAYMENTS	-	5	-	-
SPARE PARTS	-	20	-	-
DEPOSITS	-	72	77	77
LETTERS OF CREDIT	-	237	237	1.737
CASH IN HAND/BANK	-	7	7	10
CAPITAL EXPENDITURE	-	25	-	-
OTHER C.A.	6	-	-	-
TOTAL CURRENT ASSETS	567	673	573	1.880
TOTAL ASSETS	1.444	1.378	1.906	3.213
LESS CURRENT LIAB.				
ELNILEAN BANK LOAN	656	1.443	1.493	2.300
UNITY BANK LOAN	-	28	28	28
BANK OF KHARTOUM LOAN	-	9	9	9
CREDITORS	-	274	274	275
ACCRUED EXPENSES	118.50	1	1	1
OTHER C. LIAB.	.50	-	-	-
TOTAL CURRENT LIAB.	775	1.755	1.805	2.613
WORKING CAPITAL	(208)	(1.081)	(1.232	(733)
LONG TERM LOAN				
SIB LOAN	194	119	119	-
OTHERS	-	-	-	-
TOTAL L.T.L.	194	119	119	-
NET WORTH	475	(495)	(18)	600
CAPITAL	350	548	548	
RESERVE	125	50		
ACCUMULATED CASH		(1093)		
	475	(495)		